

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 30
RED MOUNTAIN**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 30
Red Mountain
Table of Contents**

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT		1 - 2
BASIC FINANCIAL STATEMENTS		
Government-Wide Financial Statements		
Statement of Net Assets	A	3
Statement of Activities	B	4
Fund Financial Statements		
Balance Sheet - Governmental Funds	C	5
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	D	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	E	7
Notes to Financial Statements		8 - 15
Required Supplementary Information	<u>Schedule</u>	
Budgetary Comparison Schedule - Special Revenue Funds (General/Fire)	One	16 - 17



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

DONALD L. ROGERS, C.P.A.
JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
PHILLIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.

CYNTHIA L. SAKS, C.P.A.
LEENA SHANBHAG, C.P.A.
NANCY O'RAFFERTY, C.P.A.
KATHLEEN L. DEVALK, C.P.A.
LAURIE K. MARSCHER, C.P.A.
THOMAS T. PRILL, C.P.A.
JENNIFER L. STARBUCK, C.P.A.
JOSEPH P. WALSH, C.P.A.
SO MAN (PEONY) CHENG, C.P.A.
SCOTT W. MANNO, C.P.A.
YUAN (PATRICIA) SONG, C.P.A.
JANET M. VRYHEID, C.P.A.

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 30 - Red Mountain

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 30 - Red Mountain (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 30 - Red Mountain, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 - 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

VANIR TOWER • 290 NORTH "D" STREET • SUITE 300
SAN BERNARDINO, CA 92401
(909) 889-0871 • (909) 824-6736 • FAX (909) 889-5361
E-mail: rams@ramscpa.net

The County of San Bernardino Special District County Service Area No. 30 - Red Mountain has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

County of San Bernardino Special Districts
County Service Area No. 30 - Red Mountain
Statement of Net Assets
June 30, 2003

ASSETS

Cash and cash equivalents	\$ 19,416
Interest receivable	119
Taxes receivable	670
Capital assets, net of depreciation	<u>-</u>

Total Assets	<u>20,205</u>
--------------	---------------

LIABILITIES

Due to other governments	<u>92</u>
--------------------------	-----------

NET ASSETS

Unrestricted	<u>20,113</u>
--------------	---------------

Total Net Assets	<u>\$ 20,113</u>
------------------	------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 30 - Red Mountain
Statement of Activities
For the Year Ended June 30, 2003**

EXPENSES

Salaries and benefits	\$ 816
Services and supplies	6,516
Total Program Expenses	<u>7,332</u>

PROGRAM REVENUE

Charges for services	5,597
Net Program Expense	<u>(1,735)</u>

GENERAL REVENUES

Property taxes	3,180
Other taxes	89
State assistance	48
Investment earnings	593
Total General Revenues	<u>3,910</u>

Change in net assets	2,175
----------------------	-------

Net Assets - beginning	<u>17,938</u>
-------------------------------	---------------

Net Assets - ending	<u><u>\$ 20,113</u></u>
----------------------------	-------------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 30 - Red Mountain
Balance Sheet
Governmental Funds
June 30, 2003**

	<u>SPECIAL REVENUE FUNDS</u>		<u>Total</u>
	<u>General</u>	<u>Fire</u>	<u>Governmental</u>
	<u>(SGJ)</u>	<u>(SGM)</u>	<u>Funds</u>
ASSETS			
Cash and cash equivalents	\$ 4,963	\$ 14,453	\$ 19,416
Interest receivable	29	90	119
Taxes receivable	124	351	475
Total Assets	<u>\$ 5,116</u>	<u>\$ 14,894</u>	<u>\$ 20,010</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other governments	\$ 92	\$ -	\$ 92
Total Liabilities	<u>92</u>	<u>-</u>	<u>92</u>
Fund Balances:			
Unreserved:			
Undesignated	<u>5,024</u>	<u>14,894</u>	<u>19,918</u>
Total Fund Balances	<u>5,024</u>	<u>14,894</u>	<u>19,918</u>
Total Liabilities and Fund Balances	<u>\$ 5,116</u>	<u>\$ 14,894</u>	
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:			
Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.			
Property tax revenue			<u>195</u>
Net assets of governmental funds			<u>\$ 20,113</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 30 - Red Mountain
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	<u>SPECIAL REVENUE FUND</u>		<u>Total</u>
	<u>General</u>	<u>Fire</u>	<u>Governmental</u>
	<u>(SGJ)</u>	<u>(SGM)</u>	<u>Funds</u>
REVENUES			
Property taxes	\$ 2,645	\$ 516	\$ 3,161
Special assessments	-	5,597	5,597
Other taxes	89	-	89
State assistance	48	-	48
Investment earnings	159	434	593
	<u>2,941</u>	<u>6,547</u>	<u>9,488</u>
Total Revenues			
EXPENDITURES			
Salaries and benefits	767	49	816
Services and supplies	2,995	3,521	6,516
	<u>3,762</u>	<u>3,570</u>	<u>7,332</u>
Total Expenditures			
Net Change in Fund Balances	(821)	2,977	2,156
Fund Balances - beginning	5,845	11,917	17,762
Fund Balances - ending	<u>\$ 5,024</u>	<u>\$ 14,894</u>	<u>\$ 19,918</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 30 - Red Mountain
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Funds	\$ 2,156
--	----------

Amounts reported for governmental activities in the statement of activities
are different because:

Some revenues will not be collected for several months after year-end,
they are not considered "available" revenue in the governmental
funds.

Property tax revenue - current year	195
Property tax revenue - prior year	<u>(176)</u>

Change in net assets of governmental activities	<u><u>\$ 2,175</u></u>
---	------------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 30 - Red Mountain
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 30 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on September 26, 1995 to provide fire protection services for the community of Red Mountain through a contract with Kern County. The CSA is under the administrative direction of the County Fire Department.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 30 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 30 - Red Mountain
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* labeled "Fire" provides fire protection services for the community of Red Mountain through a contract with Kern County approved by the Board on September 26, 1995.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts
County Service Area No. 30 - Red Mountain
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**County of San Bernardino Special Districts
County Service Area No. 30 - Red Mountain
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino Special Districts
County Service Area No. 30 - Red Mountain
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, being depreciated:				
Vehicles	\$ 10,000	\$ -	\$ -	\$ 10,000
Total capital assets, being depreciated	10,000	-	-	10,000
Less accumulated depreciation for:				
Vehicles	(10,000)	-	-	(10,000)
Total accumulated depreciation	(10,000)	-	-	(10,000)
Total capital assets, being depreciated, net	\$ -	\$ -	\$ -	\$ -

**County of San Bernardino Special Districts
County Service Area No. 30 - Red Mountain
Notes to Financial Statements
June 30, 2003**

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County of San Bernardino Special Districts
County Service Area No. 30 - Red Mountain
Notes to Financial Statements
June 30, 2003**

NOTE 4: RETIREMENT PLAN (continued)

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Pension Cost (in thousands)	Percentage Contributed
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 5: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 6: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

**County of San Bernardino Special Districts
County Service Area No. 30 - Red Mountain
Notes to Financial Statements
June 30, 2003**

NOTE 6: RISK MANAGEMENT (continued)

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 7: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 30 - Red Mountain
Budgetary Comparison Schedule - Special Revenue Funds (General/Fire)
For the Year Ended June 30, 2003

	Special Revenue Fund			
	General (SGJ)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 2,744	\$ 2,744	\$ 2,645	\$ (99)
Special assessments	-	-	-	-
Other taxes	-	-	89	89
State assistance	-	-	48	48
Investment earnings	100	100	159	59
Total Revenues	2,844	2,844	2,941	97
EXPENDITURES				
Salaries and benefits	767	767	767	-
Services and supplies	7,502	7,502	2,995	4,507
Reserves and contingencies	420	420	-	420
Total Expenditures	8,689	8,689	3,762	4,927
Net Change in Fund Balances	\$ (5,845)	\$ (5,845)	(821)	\$ 5,024
Fund Balances - beginning			5,845	
Fund Balances - ending			\$ 5,024	

Special Revenue Fund			
Fire (SGM)			
Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
\$ -	\$ -	\$ 516	\$ 516
6,600	6,600	5,597	(1,003)
-	-	-	-
-	-	-	-
300	300	434	134
6,900	6,900	6,547	(353)
49	49	49	-
9,629	9,629	3,521	6,108
9,139	9,139	-	9,139
18,817	18,817	3,570	15,247
<u>\$ (11,917)</u>	<u>\$ (11,917)</u>	2,977	<u>\$ 14,894</u>
		11,917	
		<u>\$ 14,894</u>	



**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 38
COUNTY FIRE**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 38
County Fire
Table of Contents**

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT		1 - 2
BASIC FINANCIAL STATEMENTS		
Government-Wide Financial Statements		
Statement of Net Assets	A	3
Statement of Activities	B	4
Fund Financial Statements		
Balance Sheet - Governmental Funds	C	5 - 6
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	D	7 - 8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	E	9
Notes to Financial Statements		10 - 22
Required Supplementary Information	<u>Schedule</u>	
Budgetary Comparison Schedule - Special Revenue Fund	One	23 - 24
Combining Schedules		
Combining Balance Sheet - Nonmajor Governmental Funds	Two	25 - 27
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	Three	28 - 30



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

DONALD L. ROGERS, C.P.A.
JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
PHILIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.

CYNTHIA L. SAKS, C.P.A.
LEENA SHANBHAG, C.P.A.
NANCY O'RAFFERTY, C.P.A.
KATHLEEN L. DEVALK, C.P.A.
LAURIE K. MARSCHE, C.P.A.
THOMAS T. PRILL, C.P.A.
JENNIFER L. STARBUCK, C.P.A.
JOSEPH P. WALSH, C.P.A.
SO MAN (PEONY) CHENG, C.P.A.
SCOTT W. MANNO, C.P.A.
YUAN (PATRICIA) SONG, C.P.A.
JANET M. VRYHEID, C.P.A.

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 38 - County Fire

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 38 - County Fire (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 38 - County Fire, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on pages 23 through 24 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCFSA THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

The County of San Bernardino Special District County Service Area No. 38 - County Fire has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CSA's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

September 26, 2003

This page left blank intentionally.

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Statement of Net Assets
June 30, 2003

ASSETS

Cash and cash equivalents	\$ 800,749
Interest receivable	3,015
Taxes receivable	870,341
Due from other governments	72,615
Capital assets, net of depreciation	<u>3,553,341</u>
 Total Assets	 <u>5,300,061</u>

LIABILITIES

Salaries and benefits payable	182,909
Compensated absences payable	187,789
Interest payable	5,481
Due to other governments	130,405
Long-term liabilities:	
Due within one year	229,746
Due in more than one year	<u>75,722</u>
 Total Liabilities	 <u>812,052</u>

NET ASSETS

Invested in capital assets, net of related debt	3,395,266
Unrestricted	<u>1,092,743</u>
 Total Net Assets	 <u>\$ 4,488,009</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Statement of Activities
For the Year Ended June 30, 2003

EXPENSES

Salaries and benefits	\$ 7,633,899
Services and supplies	2,675,317
Depreciation	553,484
Interest on debt	16,432
Other	957
Total Program Expenses	<u>10,880,089</u>

PROGRAM REVENUES

Charges for services	2,795,893
Operating grants and contributions	1,227,549
Capital grants and contributions	21,532
Net Program Expense	<u>(6,835,115)</u>

GENERAL REVENUES

Property taxes	6,078,629
Investment earnings	12,783
State aid	159,851
Federal aid	128,937
Miscellaneous	340,826
Gain on sale of capital assets	<u>852</u>

Total General Revenues and Special Items	<u>6,721,878</u>
--	------------------

Change in Net Assets	(113,237)
----------------------	-----------

Net assets - beginning	<u>4,601,246</u>
------------------------	------------------

Net assets - ending	<u><u>\$ 4,488,009</u></u>
---------------------	----------------------------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Balance Sheet
Governmental Funds
June 30, 2003

	<u>Special Revenue Funds</u>		<u>Capital Projects Fund</u>
	<u>General (SGP)</u>	<u>Zone J (SHD)</u>	<u>Fire Station Baker (CHW)</u>
ASSETS			
Cash and cash equivalents	\$ 313,932	\$ 128,138	\$ 172,181
Interest receivable	-	849	632
Taxes receivable	345,596	7,115	-
Due from other governments	72,615	-	-
Total Assets	<u>\$ 732,143</u>	<u>\$ 136,102</u>	<u>\$ 172,813</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and benefits payable	\$ 182,909	\$ -	\$ -
Due to other governments	130,405	-	-
Total Liabilities	<u>313,314</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Reserved - imprest cash	3,450	-	-
Reserved - encumbrances	2,000	34,657	-
Unreserved - undesignated	413,379	101,445	172,813
Total Fund Balances	<u>418,829</u>	<u>136,102</u>	<u>172,813</u>
Total Liabilities and Fund Balances	<u>\$ 732,143</u>	<u>\$ 136,102</u>	<u>\$ 172,813</u>

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue

Compensated absences payable are not financial resources, and therefore, are not reported in the funds.

Long-term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.

Accrued interest payable

Capital lease payable

Bonds payable

Net assets of governmental funds

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 186,498	\$ 800,749
1,534	3,015
19,455	372,166
-	72,615
<u>\$ 207,487</u>	<u>\$ 1,248,545</u>
\$ -	\$ 182,909
-	130,405
-	<u>313,314</u>
100	3,550
17,489	54,146
189,898	877,535
<u>207,487</u>	<u>935,231</u>
<u>\$ 207,487</u>	
	3,553,341
	498,175
	(187,789)
	(5,481)
	(158,075)
	<u>(147,393)</u>
	<u>\$ 4,488,009</u>

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	<u>Special Revenue Funds</u>		<u>Capital Projects Fund</u>
	<u>General (SGP)</u>	<u>Zone J (SHD)</u>	<u>Fire Station Baker (CHW)</u>
REVENUES			
Property taxes	\$ 5,724,971	\$ 120,176	\$ -
Special assessments	-	-	-
Other taxes	306,659	6,114	-
Rent and concessions	10,800	-	-
State aid	152,272	2,753	-
Federal aid	128,937	-	-
Service fees	2,616,719	-	-
Investment earnings	-	4,732	978
Other	7,093	-	-
Total Revenues	<u>8,947,451</u>	<u>133,775</u>	<u>978</u>
EXPENDITURES			
Salaries and benefits	7,627,211	-	-
Services and supplies	2,489,304	1,982	-
Other	957	-	-
Debt Service:			
Principal	223,433	-	-
Interest and other charges	22,978	-	-
Capital outlay	5,977	34,657	54,399
Total Expenditures	<u>10,369,860</u>	<u>36,639</u>	<u>54,399</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,422,409)</u>	<u>97,136</u>	<u>(53,421)</u>
OTHER FINANCING SOURCES (USES)			
Contributions from other governments	1,032,549	-	195,000
Transfer in	380,458	-	-
Transfer out	-	(138,166)	-
Proceeds from sale of capital assets	4,584	-	-
Total Other Financing Sources (Uses)	<u>1,417,591</u>	<u>(138,166)</u>	<u>195,000</u>
Net Change in Fund Balances	(4,818)	(41,030)	141,579
Fund Balances - beginning	<u>423,647</u>	<u>177,132</u>	<u>31,234</u>
Fund Balances - ending	<u>\$ 418,829</u>	<u>\$ 136,102</u>	<u>\$ 172,813</u>

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 222,391	\$ 6,067,538
179,174	179,174
10,160	322,933
-	10,800
4,826	159,851
-	128,937
-	2,616,719
7,073	12,783
-	7,093
<u>423,624</u>	<u>9,505,828</u>
797	7,628,008
184,031	2,675,317
-	957
-	223,433
-	22,978
28,023	123,056
<u>212,851</u>	<u>10,673,749</u>
<u>210,773</u>	<u>(1,167,921)</u>
-	1,227,549
-	380,458
(242,292)	(380,458)
-	4,584
<u>(242,292)</u>	<u>1,232,133</u>
(31,519)	64,212
<u>239,006</u>	<u>871,019</u>
<u>\$ 207,487</u>	<u>\$ 935,231</u>

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire**

Net Change in Fund Balances - Total Governmental Funds	\$ 64,212
--	-----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

(430,428)

In the statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.

(3,732)

Capital assets transferred from other governments are not financial resources and therefore are not reported in the governmental funds.

21,532

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue - current year

498.175

Property tax revenue - prior year

(487,084)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Interest expense

6.546

Increase in compensated absences payable

(5,891)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Principal payments

223.433

Change in net assets of governmental activities

\$ (113,237)

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 38 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code. It has combined resources with the California Department of Forestry and Fire Protection (CDF) to form an integrated fire protection system in the unincorporated areas, outside of the county fire districts, on a contract basis.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 38 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* labeled "Zone J" accounts for activities of the fire protection service to the area surrounding the communities of Parker Dam and Big River. Parker Dam Fire Station, Big River Fire Station and Parker Strip Fire Station are staffed by paid-call firefighters.

The *capital projects fund* labeled "Fire Station Baker" accounts for activities of the fire station improvements in the CSA.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The CSA is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2003 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>\$ 181,898</u>	<u>\$ 134,035</u>	<u>\$ 128,144</u>	<u>\$ 187,789</u>

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$(430,428) difference are as follows:

Capital outlay	\$ 123,056
Depreciation expense	<u>(553,484)</u>
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (430,428)</u>

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$223,433 difference are as follows:

Principal repayments:	
Revolving loan	\$ 73,637
Capital lease	149,796
	<hr/>
Net adjustment to increase <i>net changes in fund</i>	
<i>balances - total governmental funds to arrive at</i>	
<i>changes in net assets of governmental activities</i>	<u>\$ 223,433</u>

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of the \$6,546 difference are as follows:

Accrued interest	\$ (5,481)
Prior year interest expense	12,027
	<hr/>
Net adjustment to increase <i>net changes in fund</i>	
<i>balances - total governmental funds to arrive at</i>	
<i>changes in net assets of governmental activities</i>	<u>\$ 6,546</u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

Reclassification

Certain reclassifications and restatements have been made to the current year financial statements to conform to the proper presentation.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2003

NOTE 3: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 179,708	\$ -	\$ -	\$ 179,708
Construction in Progress	68,402	54,946	-	123,348
Total capital assets, not being depreciated	248,110	54,946	-	303,056
Capital assets, being depreciated:				
Land improvements	127,258	-	-	127,258
Structures and improvements	2,453,390	28,002	-	2,481,392
Vehicles	7,265,238	34,657	(127,472)	7,172,423
Equipment	274,143	26,983	(13,191)	287,935
Total capital assets, being depreciated	10,120,029	89,642	(140,663)	10,069,008
Less accumulated depreciation for:				
Land improvements	(33,799)	(3,447)	-	(37,246)
Structures and improvements	(619,395)	(54,049)	-	(673,444)
Vehicles	(5,549,872)	(475,747)	127,472	(5,898,147)
Equipment	(199,104)	(20,241)	9,459	(209,886)
Total accumulated depreciation	(6,402,170)	(553,484)	136,931	(6,818,723)
Total capital assets being depreciated	3,717,859	(463,842)	(3,732)	3,250,285
Total capital assets, net	<u>\$ 3,965,969</u>	<u>\$ (408,896)</u>	<u>\$ (3,732)</u>	<u>\$ 3,553,341</u>

NOTE 4: CAPITAL LEASES

CSA No. 38 has entered into a lease agreement as lessee for financing the acquisition of fire engines. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2003

NOTE 4: CAPITAL LEASES (continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2003, were as follows:

<u>Year Ending June 30,</u>	
2004	<u>\$ 166,411</u>
Total minimum lease payments	166,411
Less: amount representing interest	<u>8,336</u>
Present value of minimum lease payments	<u><u>\$ 158,075</u></u>

NOTE 5: LOANS PAYABLE

CSA No. 38 received a \$350,000 loan from the County Service Area Revolving Fund established under Government Code Section 25210.9c. The loan has a five year term as established by the Board of Supervisors. CSA No. 38 repays interest and principal in the amount of \$80,000 yearly for five years beginning in FY 2000/2001.

The following is a schedule of debt service requirements to maturity as of June 30, 2003 for the District's bonds payable.

<u>Year Ending June 30,</u>	
2004	\$ 80,000
2005	<u>80,000</u>
Total payments	160,000
Less: interest	<u>12,607</u>
Total Principal	<u><u>\$ 147,393</u></u>

Long-term liability activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Loans payable:					
Revolving fund loan	\$ 221,030	\$ -	\$ 73,637	\$ 147,393	\$ 71,672
Capital leases	<u>307,871</u>	<u>-</u>	<u>149,796</u>	<u>158,075</u>	<u>158,074</u>
Governmental activity					
Long-term liabilities	<u>\$ 528,901</u>	<u>\$ -</u>	<u>\$ 223,433</u>	<u>\$ 305,468</u>	<u>\$ 229,746</u>

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2003**

NOTE 6: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. The CSA paid \$496,615 to the plan as the employer's share. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2003**

NOTE 6: RETIREMENT PLAN (continued)

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 7: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 8: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$456,545 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2003**

NOTE 8: RISK MANAGEMENT (continued)

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2003**

NOTE 9: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2003, the CSA made the following interfund transfers in and out:

	<u>Transfers in:</u> <u>Special</u> <u>Revenue Funds</u> <u>General (SGP)</u>
<u>Transfers out:</u>	
Special Revenue Fund Zone J (SHD)	\$ 138,166
Nonmajor and other funds	<u>242,292</u>
Total	<u>\$ 380,458</u>

At June 30, 2003, the CSA had total contributions of \$1,227,549 from other governments within the County of San Bernardino. The CSA has reported the contributions as transfers in the 2002/2003 County of San Bernardino Special Districts Final Budget, because, as a component unit, the CSA is considered a special revenue fund within the County. Therefore, the transaction would be considered a transfer rather than a contribution between county funds. As a result, the total amount of transfers in reported in the Budgetary Comparison Schedule - Special Revenue Fund (Schedule One) is \$1,535,790 which consists of the contributions from other governments of \$1,227,549 and the interfund transfers in of \$308,241.

NOTE 10: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 11: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Budgetary Comparison Schedule - Special Revenue Fund
For the Year Ended June 30, 2003

	Special Revenue Fund			
	General (SGP)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$5,961,963	\$ 5,961,963	\$ 5,724,971	\$ (236,992)
Other taxes	-	-	306,659	306,659
Rent and concessions	14,400	14,400	10,800	(3,600)
State aid	-	-	152,272	152,272
Federal aid	-	-	128,937	128,937
Service fees	3,414,030	3,414,030	2,616,719	(797,311)
Investment earnings	-	-	-	-
Other	65,000	65,000	7,093	(57,907)
Total Revenues	9,455,393	9,455,393	8,947,451	(507,942)
EXPENDITURES				
Salaries and benefits	8,195,702	8,195,702	7,627,211	568,491
Services and supplies	2,816,606	2,884,106	2,489,304	394,802
Other	97,860	97,860	957	96,903
Debt service:				
Principal	149,797	149,797	223,433	(73,636)
Interest and other charges	-	-	22,978	(22,978)
Capital outlay	6,000	6,000	5,977	23
Reserves and contingencies	-	-	-	-
Total Expenditures	11,265,965	11,333,465	10,369,860	963,605
Excess of Revenues Over (Under) Expenditures	(1,810,572)	(1,878,072)	(1,422,409)	455,663
OTHER FINANCING SOURCES (USES)				
Transfer in	1,635,157	1,702,657	1,535,790	(166,867)
Transfer out	(242,783)	(242,783)	(122,783)	120,000
Proceeds from sale of capital assets	-	-	4,584	4,584
Total Other Financing Sources (Uses)	1,392,374	1,459,874	1,417,591	(42,283)
Net Change in Fund Balances	\$ (418,198)	\$ (418,198)	(4,818)	\$ 413,380
Fund Balances - beginning			423,647	
Fund Balances - ending			\$ 418,829	

Special Revenue Fund			
Zone J (SHD)			
Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
\$ 121,930	\$ 121,930	\$ 120,176	\$ (1,754)
-	-	6,114	6,114
-	-	-	-
-	-	2,753	2,753
-	-	-	-
-	-	-	-
3,348	3,348	4,732	1,384
-	-	-	-
<u>125,278</u>	<u>125,278</u>	<u>133,775</u>	<u>8,497</u>
116	116	-	116
49	49	1,982	(1,933)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	34,657	(34,657)
<u>127,193</u>	<u>127,193</u>	<u>-</u>	<u>127,193</u>
<u>127,358</u>	<u>127,358</u>	<u>36,639</u>	<u>90,719</u>
(2,080)	(2,080)	97,136	99,216
-	-	-	-
(140,395)	(140,395)	(138,166)	2,229
-	-	-	-
<u>(140,395)</u>	<u>(140,395)</u>	<u>(138,166)</u>	<u>2,229</u>
<u>\$ (142,475)</u>	<u>\$ (142,475)</u>	<u>(41,030)</u>	<u>\$ 101,445</u>
		<u>177,132</u>	
		<u>\$ 136,102</u>	

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003

	Special Revenue Funds		
	Zone H (SHA)	Zone K (SHG)	Zone M (SHP)
ASSETS			
Cash and cash equivalents	\$ 15,928	\$ 1,599	\$ 14,464
Interest receivable	186	191	25
Taxes receivable	3,551	3,889	1,306
Total Assets	<u>\$ 19,665</u>	<u>\$ 5,679</u>	<u>\$ 15,795</u>
LIABILITIES AND FUND BALANCES			
Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances:			
Reserved - imprest cash	-	-	-
Reserved - encumbrances	-	-	-
Unreserved - undesignated	19,665	5,679	15,795
Total Fund Balances	<u>19,665</u>	<u>5,679</u>	<u>15,795</u>
Total Liabilities and Fund Balances	<u>\$ 19,665</u>	<u>\$ 5,679</u>	<u>\$ 15,795</u>

Special Revenue Funds			Capital Projects Funds	
Zone N (SHS)	Zone L (SHV)	Zone D (SGS)	Water Tender (CDK)	Fire Station Devore (CEB)
\$ 74,500	\$ 67,162	\$ 2,374	\$ 1	\$ 2,274
414	397	258	-	17
1,873	3,813	5,023	-	-
<u>\$ 76,787</u>	<u>\$ 71,372</u>	<u>\$ 7,655</u>	<u>\$ 1</u>	<u>\$ 2,291</u>
\$ -	\$ -	\$ -	\$ -	\$ -
100	-	-	-	-
-	-	-	-	17,489
76,687	71,372	7,655	1	(15,198)
<u>76,787</u>	<u>71,372</u>	<u>7,655</u>	<u>1</u>	<u>2,291</u>
<u>\$ 76,787</u>	<u>\$ 71,372</u>	<u>\$ 7,655</u>	<u>\$ 1</u>	<u>\$ 2,291</u>

This page left blank intentionally.

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003

	Capital Projects Funds		Total Nonmajor Governmental Funds (see Exhibit C)
	Communications (CEU)	Defibrillator (CPL)	
ASSETS			
Cash and cash equivalents	\$ 8,118	\$ 78	\$ 186,498
Interest receivable	46	-	1,534
Taxes receivable	-	-	19,455
Total Assets	\$ 8,164	\$ 78	\$ 207,487
LIABILITIES AND FUND BALANCES			
Liabilities:	\$ -	\$ -	\$ -
Fund Balances:			
Reserved - imprest cash	-	-	100
Reserved - encumbrances	-	-	17,489
Unreserved - undesignated	8,164	78	189,898
Total Fund Balances	8,164	78	207,487
Total Liabilities and Fund Balances	\$ 8,164	\$ 78	\$ 207,487

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2003

	Special Revenue Funds		
	Zone H (SHA)	Zone K (SHG)	Zone M (SHP)
REVENUES			
Property taxes	\$ 60,536	\$ 66,533	\$ 1,639
Special assessments	-	-	8,918
Other taxes	2,761	2,931	-
Investment earnings	1,041	591	398
State aid	1,375	1,506	-
Total Revenues	65,713	71,561	10,955
EXPENDITURES			
Salaries and benefits	-	-	52
Services and supplies	999	1,097	20,109
Capital outlay	-	-	-
Total Expenditures	999	1,097	20,161
Excess of Revenues Over (Under) Expenditures	64,714	70,464	(9,206)
OTHER FINANCING SOURCES (USES)			
Transfer in (out)	(89,472)	(66,670)	-
Net Change in Fund Balances	(24,758)	3,794	(9,206)
Fund Balances - beginning	44,423	1,885	25,001
Fund Balances - ending	\$ 19,665	\$ 5,679	\$ 15,795

Special Revenue Funds			Capital Projects Funds	
Zone N (SHS)	Zone L (SHV)	Zone D (SGS)	Water Tender (CDK)	Fire Station Devore (CEB)
\$ 3,294	\$ 5,411	\$ 84,978	\$ -	\$ -
39,938	130,318	-	-	-
-	-	4,468	-	-
1,709	1,956	1,136	-	(7)
-	-	1,945	-	-
44,941	137,685	92,527	-	(7)
17	728	-	-	-
-	160,425	1,401	-	-
-	-	-	-	28,002
17	161,153	1,401	-	28,002
44,924	(23,468)	91,126	-	(28,009)
(29,522)	-	(86,490)	(138)	30,000
15,402	(23,468)	4,636	(138)	1,991
61,385	94,840	3,019	139	300
\$ 76,787	\$ 71,372	\$ 7,655	\$ 1	\$ 2,291

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2003**

	Capital Projects Funds		Total Nonmajor Governmental Funds (see Exhibit D)
	Communications (CEU)	Defibrillator (CPL)	
REVENUES			
Property taxes	\$ -	\$ -	\$ 222,391
Special assessments	-	-	179,174
Other taxes	-	-	10,160
Investment earnings	247	2	7,073
State aid	-	-	4,826
Total Revenues	247	2	423,624
EXPENDITURES			
Salaries and benefits	-	-	797
Services and supplies	-	-	184,031
Capital outlay	21	-	28,023
Total Expenditures	21	-	212,851
Excess of Revenues Over (Under) Expenditures	226	2	210,773
OTHER FINANCING SOURCES (USES)			
Transfer in (out)	-	-	(242,292)
Net Change in Fund Balances	226	2	(31,519)
Fund Balances - beginning	7,938	76	239,006
Fund Balances - ending	\$ 8,164	\$ 78	\$ 207,487

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 40
ELEPHANT MOUNTAIN**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 40
Elephant Mountain
Table of Contents**

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT		1 - 2
BASIC FINANCIAL STATEMENTS		
Government-Wide Financial Statements		
Statement of Net Assets	A	3
Statement of Activities	B	4
Fund Financial Statements		
Balance Sheet - Governmental Fund	C	5
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund	D	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to the Statement of Activities	E	7
Notes to Financial Statements		8 - 15
Required Supplementary Information	<u>Schedule</u>	
Budgetary Comparison Schedule - Special Revenue Fund (General)	One	16



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

DONALD L. ROGERS, C.P.A.
JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
PHILLIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.

CYNTHIA L. SAKS, C.P.A.
LEENA SHANBHAG, C.P.A.
NANCY O'RAFFERTY, C.P.A.
KATHLEEN L. DEVALK, C.P.A.
LAURIE K. MARSCHER, C.P.A.
THOMAS T. PRILL, C.P.A.
JENNIFER L. STARBUCK, C.P.A.
JOSEPH P. WALSH, C.P.A.
SO MAN (PEONY) CHENG, C.P.A.
SCOTT W. MANNO, C.P.A.
YUAN (PATRICIA) SONG, C.P.A.
JANET M. VRYHEID, C.P.A.

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 40 - Elephant Mountain

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 40 - Elephant Mountain (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 40 - Elephant Mountain, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

VANIR TOWER • 290 NORTH "D" STREET • SUITE 300
SAN BERNARDINO, CA 92401
(909) 889-0871 • (909) 824-6736 • FAX (909) 889-5361
E-mail: rams@ramscpa.net

The County of San Bernardino Special District County Service Area No. 40 - Elephant Mountain has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

County of San Bernardino Special Districts
County Service Area No. 40 - Elephant Mountain
Statement of Net Assets
June 30, 2003

ASSETS

Cash and cash equivalents	\$ 353,296
Interest receivable	1,934
Taxes receivable	25,082
Capital assets, net of depreciation	<u>311,192</u>
Total Assets	<u>691,504</u>

LIABILITIES

Accounts payable	17,351
Salaries and benefits payable	<u>1,786</u>
Total Liabilities	<u>19,137</u>

NET ASSETS

Invested in capital assets	311,192
Unrestricted	<u>361,175</u>
Total Net Assets	<u>\$ 672,367</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 40 - Elephant Mountain
Statement of Activities
For the Year Ended June 30, 2003

EXPENSES

Salaries and benefits	\$ 49,491
Services and supplies	109,887
Depreciation	30,678
Total Program Expenses	<u>190,056</u>

PROGRAM REVENUES

Charges for services	13,260
Net Program Expense	<u>(176,796)</u>

GENERAL REVENUES

Property taxes	196,672
Other taxes	7,437
State assistance	4,048
Investments earnings	10,153
Other	760
Total General Revenues	<u>219,070</u>

Change in Net Assets	42,274
----------------------	--------

Net Assets - beginning	<u>630,093</u>
------------------------	----------------

Net Assets - ending	<u>\$ 672,367</u>
---------------------	-------------------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 40 - Elephant Mountain
Balance Sheet
Governmental Fund
June 30, 2003

	SPECIAL REVENUE FUND <hr/> General (SIS) <hr/>
ASSETS	
Cash and cash equivalents	\$ 353,296
Interest receivable	1,934
Taxes receivable	10,473
	<hr/>
Total Assets	\$ 365,703
	<hr/>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 17,351
Salaries and benefits payable	1,786
	<hr/>
Total Liabilities	19,137
	<hr/>
Fund Balances:	
Unreserved:	
Undesignated	346,566
	<hr/>
Total Fund Balances	346,566
	<hr/>
Total Liabilities and Fund Balances	\$ 365,703
	<hr/>
Total fund balances - governmental fund	\$ 346,566
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	311,192
Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental fund.	
Property tax revenue	14,609
	<hr/>
Net assets of governmental fund	\$ 672,367
	<hr/>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 40 - Elephant Mountain
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2003

	SPECIAL REVENUE FUND <hr/> General (SIS) <hr/>
REVENUES	
Property taxes	\$ 196,914
Other taxes	7,437
State assistance	4,048
Service fees	13,260
Investment earnings	10,153
Other	760
	<hr/>
Total Revenues	232,572
	<hr/>
EXPENDITURES	
Salaries and benefits	49,491
Services and supplies	85,009
Capital outlay:	
Equipment	24,878
	<hr/>
Total Expenditures	159,378
	<hr/>
Net Change in Fund Balances	73,194
	<hr/>
Fund Balances - beginning	273,372
	<hr/>
Fund Balances - ending	\$ 346,566
	<hr/>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 40 - Elephant Mountain
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Fund to the
Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Fund	\$	73,194
---	----	--------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.		(30,678)
--	--	----------

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental fund.

Property tax revenue - current year		14,609
Property tax revenue - prior year		(14,851)

Change in net assets of governmental activities	\$	<u>42,274</u>
---	----	---------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 40 - Elephant Mountain
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 40 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to provide ten channels of UHF television translator service broadcast from Elephant Mountain, and five channels of VHF television translator service broadcast from Newberry Springs to the 100 square mile area encompassing Barstow, Daggett, Hinkley, Newberry Springs and Yermo.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 40 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 40 - Elephant Mountain
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts
County Service Area No. 40 - Elephant Mountain
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

County of San Bernardino Special Districts
County Service Area No. 40 - Elephant Mountain
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

County of San Bernardino Special Districts
County Service Area No. 40 - Elephant Mountain
Notes to Financial Statements
June 30, 2003

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 92,958	\$ -	\$ -	\$ 92,958
Total capital assets, not being depreciated	92,958	-	-	92,958
Capital assets, being depreciated:				
Land improvements	125,199	-	-	125,199
Structures and improvements	130,883	-	-	130,883
Vehicles	14,300	-	-	14,300
Equipment	502,481	-	-	502,481
Total capital assets, being depreciated	772,863	-	-	772,863
Less accumulated depreciation for:				
Land improvements	(102,532)	(1,217)	-	(103,749)
Structures and improvements	(34,768)	(3,086)	-	(37,854)
Vehicles	(14,300)	-	-	(14,300)
Equipment	(372,351)	(26,375)	-	(398,726)
Total accumulated depreciation	(523,951)	(30,678)	-	(554,629)
Total capital assets, being depreciated, net	248,912	(30,678)	-	218,234
Governmental activities capital assets, net	\$ 341,870	\$ (30,678)	\$ -	\$ 311,192

**County of San Bernardino Special Districts
County Service Area No. 40 - Elephant Mountain
Notes to Financial Statements
June 30, 2003**

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

County of San Bernardino Special Districts
County Service Area No. 40 - Elephant Mountain
Notes to Financial Statements
June 30, 2003

NOTE 4: RETIREMENT PLAN (continued)

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Pension Cost (in thousands)	Percentage Contributed
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 5: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 6: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$1,650 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

County of San Bernardino Special Districts
County Service Area No. 40 - Elephant Mountain
Notes to Financial Statements
June 30, 2003

NOTE 6: RISK MANAGEMENT (continued)

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 7: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 40 - Elephant Mountain
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2003

	Special Revenue Fund			
	General (SIS)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 202,261	\$ 202,261	\$ 196,914	\$ (5,347)
Other taxes	-	-	7,437	7,437
State assistance	-	-	4,048	4,048
Service fees	-	-	13,260	13,260
Investment earnings	21,730	21,730	10,153	(11,577)
Other	-	-	760	760
Total Revenues	223,991	223,991	232,572	8,581
EXPENDITURES				
Salaries and benefits	66,958	66,958	49,491	17,467
Services and supplies	124,597	124,597	85,009	39,588
Capital outlay:				
Equipment	65,000	65,000	24,878	40,122
Reserves and contingencies	206,615	206,615	-	206,615
Total Expenditures	463,170	463,170	159,378	303,792
Excess of Revenues Over (Under) Expenditures	(239,179)	(239,179)	73,194	312,373
OTHER FINANCING SOURCES (USES)				
Transfer out	(20,000)	(20,000)	-	20,000
Total Other Financing Sources (Uses)	(20,000)	(20,000)	-	20,000
Net Change in Fund Balances	\$ (259,179)	\$ (259,179)	73,194	\$ 332,373
Fund Balances - beginning			273,372	
Fund Balances - ending			\$ 346,566	

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 42
ORO GRANDE**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 42
Oro Grande
Table of Contents**

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT		1 - 2
BASIC FINANCIAL STATEMENTS		
Government-Wide Financial Statements		
Statement of Net Assets	A	3
Statement of Activities	B	4
Fund Financial Statements		
Balance Sheet - Governmental Funds	C	5
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	D	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	E	7
Statement of Net Assets - Proprietary Fund	F	8
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund	G	9
Statement of Cash Flows - Proprietary Fund	H	10
Notes to Financial Statements		11 - 20
Required Supplementary Information	<u>Schedule</u>	
Budgetary Comparison Schedule - Special Revenue Fund	One	21



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

DONALD L. ROGERS, C.P.A.
JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
PHILLIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.

CYNTHIA L. SAKS, C.P.A.
LEENA SHANBHAG, C.P.A.
NANCY O'RAFFERTY, C.P.A.
KATHLEEN L. DEVALK, C.P.A.
LAURIE K. MARSCHER, C.P.A.
THOMAS T. PRILL, C.P.A.
JENNIFER L. STARBUCK, C.P.A.
JOSEPH P. WALSH, C.P.A.
SO MAN (PEONY) CHENG, C.P.A.
SCOTT W. MANNO, C.P.A.
YUAN (PATRICIA) SONG, C.P.A.
JANET M. VRYHEID, C.P.A.

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 42 - Oro Grande

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the County of San Bernardino Special District County Service Area No. 42 - Oro Grande (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the County of San Bernardino Special District County Service Area No. 42 - Oro Grande, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 21 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

VANIR TOWER • 290 NORTH "D" STREET • SUITE 300
SAN BERNARDINO, CA 92401
(909) 859-0871 • (909) 824-6736 • FAX (909) 859-5361
E-mail: rams@ramscpa.net

The County of San Bernardino Special District County Service Area No. 42 - Oro Grande has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Net Assets
June 30, 2003

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 35,382	\$ 205,462	\$ 240,844
Accounts receivable, net	-	25,951	25,951
Interest receivable	212	1,043	1,255
Taxes receivable	3,889	119	4,008
Capital assets, net of depreciation	114,421	199,305	313,726
Total Assets	<u>153,904</u>	<u>431,880</u>	<u>585,784</u>
LIABILITIES			
Accounts payable	-	3,183	3,183
Salaries and benefits payable	139	-	139
Due to other governments	195	-	195
Total Liabilities	<u>334</u>	<u>3,183</u>	<u>3,517</u>
NET ASSETS			
Invested in capital assets	114,421	199,305	313,726
Unrestricted	39,149	229,392	268,541
Total Net Assets	<u>\$ 153,570</u>	<u>\$ 428,697</u>	<u>\$ 582,267</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Activities
For the Year Ended June 30, 2003

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Salaries and benefits	\$ 21,296	\$ 79,757	\$ 101,053
Services and supplies	28,052	47,738	75,790
Utilities	-	12,232	12,232
Depreciation	7,519	7,784	15,303
Professional fees	-	31,095	31,095
Other	-	910	910
Total Program Expenses	<u>56,867</u>	<u>179,516</u>	<u>236,383</u>
PROGRAM REVENUES			
Charges for services	<u>4,942</u>	<u>156,126</u>	<u>161,068</u>
Net Program Expense	<u>(51,925)</u>	<u>(23,390)</u>	<u>(75,315)</u>
GENERAL REVENUES			
Property taxes	28,701	-	28,701
Other taxes	1,361	-	1,361
State assistance	638	-	638
Investment earnings	1,088	6,156	7,244
Penalties	-	2,216	2,216
Other	916	390	1,306
Total General Revenues	<u>32,704</u>	<u>8,762</u>	<u>41,466</u>
Change in Net Assets	(19,221)	(14,628)	(33,849)
Net assets - beginning	<u>172,791</u>	<u>443,325</u>	<u>616,116</u>
Net assets - ending	<u>\$ 153,570</u>	<u>\$ 428,697</u>	<u>\$ 582,267</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Balance Sheet
Governmental Funds
June 30, 2003**

	SPECIAL REVENUE FUND Park (SIV)	OTHER GOVERNMENTAL FUND Street Lights (SIY)	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 31,828	\$ 3,554	\$ 35,382
Interest receivable	201	11	212
Taxes receivable	1,669	-	1,669
Total Assets	\$ 33,698	\$ 3,565	\$ 37,263
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and benefits payable	\$ 139	\$ -	\$ 139
Due to other governments	119	76	195
Total Liabilities	258	76	334
Fund Balances:			
Unreserved:			
Undesignated	33,440	3,489	36,929
Total Fund Balances	33,440	3,489	36,929
Total Liabilities and Fund Balances	\$ 33,698	\$ 3,565	

Amounts reported for *governmental activities* in the statement of net assets (Exhibit "A") are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

114,421

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue

2,220

Net assets of governmental funds

\$ 153,570

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	SPECIAL REVENUE FUND Park (SIV)	OTHER GOVERNMENTAL FUND Street Lights (SIY)	Total Governmental Funds
REVENUES			
Property taxes	\$ 22,985	\$ 5,834	\$ 28,819
Other taxes	1,361	-	1,361
State assistance	638	-	638
Investment earnings	1,054	34	1,088
Service fees	4,942	-	4,942
Other	-	916	916
Total Revenues	<u>30,980</u>	<u>6,784</u>	<u>37,764</u>
EXPENDITURES			
Salaries and benefits	23,448	529	23,977
Services and supplies	<u>23,271</u>	<u>4,781</u>	<u>28,052</u>
Total Expenditures	<u>46,719</u>	<u>5,310</u>	<u>52,029</u>
Net Change in Fund Balances	(15,739)	1,474	(14,265)
Fund Balances - beginning	<u>49,179</u>	<u>2,015</u>	<u>51,194</u>
Fund Balances - ending	<u>\$ 33,440</u>	<u>\$ 3,489</u>	<u>\$ 36,929</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$	(14,265)
--	----	----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.		(7,519)
--	--	---------

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue - current year		2,220
Property tax revenue - prior year		(2,338)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Decrease in compensated absences payable		2,681
--	--	-------

Change in net assets of governmental activities	\$	(19,221)
---	----	----------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Net Assets
Proprietary Fund
June 30, 2003

	ENTERPRISE FUND
	Refuse, Water, Sewer
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 205,462
Accounts receivable, net	25,951
Interest receivable	1,043
Taxes receivable	119
	<hr/>
Total Current Assets	232,575
	<hr/>
Noncurrent Assets:	
Capital assets:	
Land	44,800
Improvement to land	396,266
Construction in progress	33,168
Accumulated depreciation	(274,929)
	<hr/>
Total Noncurrent Assets	199,305
	<hr/>
Total Assets	431,880
	<hr/>
LIABILITIES	
Current Liabilities:	
Accounts payable	3,183
	<hr/>
Total Current Liabilities	3,183
	<hr/>
NET ASSETS	
Invested in capital assets	199,305
Unrestricted	229,392
	<hr/>
Total Net Assets	\$ 428,697
	<hr/>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2003

	ENTERPRISE FUND
	Refuse, Water, Sewer
OPERATING REVENUES	
Sanitation services	\$ 64,391
Water sales	85,524
Permits and inspection	60
Other services	1,157
Total Operating Revenues	<u>151,132</u>
OPERATING EXPENSES	
Salaries and benefits	79,757
Services and supplies	47,738
Utilities	12,232
Depreciation	7,784
Professional fees	31,095
Other	910
Total Operating Expenses	<u>179,516</u>
Operating (Loss)	<u>(28,384)</u>
NONOPERATING REVENUES	
Special assessments	4,994
Investment earnings	6,156
Penalties	2,216
Other	390
Total Nonoperating Revenues	<u>13,756</u>
Change in Net Assets	(14,628)
Total Net Assets - beginning	<u>443,325</u>
Total Net Assets - ending	<u>\$ 428,697</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2003

	ENTERPRISE FUND
	Refuse, Water, Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 153,032
Payments to suppliers	(99,041)
Payments to employees	(79,757)
Net Cash (Used For) Operating Activities	<u>(25,766)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property taxes	115
Special assessments	4,994
Penalties	2,216
Other nonoperating revenue	390
Net Cash Provided By Noncapital Financing Activities	<u>7,715</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	7,130
Net Cash Provided By Investing Activities	<u>7,130</u>
Net Decrease in Cash and Cash Equivalents	(10,921)
Cash and Cash Equivalents Balance - beginning of the year	<u>216,383</u>
Cash and Cash Equivalents Balance - end of the year	<u><u>\$ 205,462</u></u>
Noncash Investing, Capital and Financing Activities:	
None	
Reconciliation of operating (loss) to net cash (used for) operating activities:	
Operating (loss)	\$ (28,384)
Adjustments to reconcile operating (loss) to net cash (used for) operating activities:	
Depreciation expense	7,784
Change in assets and liabilities:	
Decrease in accounts receivable	1,836
Decrease in accounts payable	(4,644)
Decrease in due to other governments	(2,358)
Net Cash (Used) By Operating Activities	<u><u>\$ (25,766)</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 42 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) to provide water sanitation, sewer, park, refuse collection and street lighting services to the community of Oro Grande.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 42 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "Park" provides park services to the community of Oro Grande.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Refuse, Water, Sewer" accounts for the activities of the CSA, a blended component unit of the County. The CSA operates refuse collection, water, and sewer services to 254 Equivalent Dwelling Units (EDUs) in the community of Oro Grande.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the CSA enterprise fund are charges to customers for refuse, water and sewer services. Operating expenses for enterprise funds include the cost of salaries and benefits, service and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All accounts receivable are shown net of an allowance for uncollectibles when applicable. The accounts receivable balance of the Refuse, Water, Sewer Enterprise Fund at June 30, 2003 is net of an allowance for doubtful accounts of \$2,573.

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The CSA is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2003 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$ 2,681	\$ -	\$ (2,681)	\$ -

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2003

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: ACCOUNTS RECEIVABLE

At June 30, 2003, the accounts receivable were composed of the following:

	<u>Ambulance</u>
Accounts	\$ 28,524
Less: allowance for uncollectibles	<u>(2,573)</u>
Net Total Accounts Receivable	<u>\$ 25,951</u>

NOTE 4: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 9,930	\$ -	\$ -	\$ 9,930
Total capital assets, not being depreciated	<u>9,930</u>	<u>-</u>	<u>-</u>	<u>9,930</u>
Capital assets, being depreciated:				
Improvements to land	227,485	-	-	227,485
Equipment	11,493	-	-	11,493
Total capital assets, being depreciated	<u>238,978</u>	<u>-</u>	<u>-</u>	<u>238,978</u>
Less accumulated depreciation for:				
Improvements to land	(121,174)	(7,086)	-	(128,260)
Equipment	(5,794)	(433)	-	(6,227)
Total accumulated depreciation	<u>(126,968)</u>	<u>(7,519)</u>	<u>-</u>	<u>(134,487)</u>
Total capital assets, being depreciated, net	<u>112,010</u>	<u>(7,519)</u>	<u>-</u>	<u>104,491</u>
Governmental activities capital assets, net	<u>\$ 121,940</u>	<u>\$ (7,519)</u>	<u>\$ -</u>	<u>\$ 114,421</u>

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2003

NOTE 4: CAPITAL ASSETS (continued)

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 44,800	\$ -	\$ -	\$ 44,800
Construction in progress	33,168	-	-	33,168
Total capital assets, not being depreciated	77,968	-	-	77,968
Capital assets, being depreciated:				
Improvements to land	396,266	-	-	396,266
Total capital assets, being depreciated	396,266	-	-	396,266
Less accumulated depreciation for:				
Improvements to land	(267,145)	(7,784)	-	(274,929)
Total accumulated depreciation	(267,145)	(7,784)	-	(274,929)
Total capital assets, being depreciated, net	129,121	(7,784)	-	121,337
Business-type activities capital assets, net	<u>\$ 207,089</u>	<u>\$ (7,784)</u>	<u>\$ -</u>	<u>\$ 199,305</u>

NOTE 5: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2003

NOTE 5: RETIREMENT PLAN (continued)

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2003

NOTE 6: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 7: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$552 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Notes to Financial Statements
June 30, 2003**

NOTE 7: RISK MANAGEMENT (continued)

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 8: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 9: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 42 - Oro Grande
Budgetary Comparison Schedule
Special Revenue Fund
For the Year Ended June 30, 2003

	Special Revenue Fund			
	Park (SIV)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 30,120	\$ 30,120	\$ 22,985	\$ (7,135)
Other taxes	-	-	1,361	1,361
State assistance	50,000	50,000	638	(49,362)
Investment earnings	1,000	1,000	1,054	54
Service fees	3,500	3,500	4,942	1,442
Total Revenues	84,620	84,620	30,980	(53,640)
EXPENDITURES				
Salaries and benefits	27,201	27,201	23,448	3,753
Services and supplies	35,116	35,116	23,271	11,845
Reserves and contingencies	21,382	21,382	-	21,382
Total Expenditures	83,699	83,699	46,719	36,980
Excess Revenues Over (Under) Expenditures	921	921	(15,739)	(16,660)
OTHER FINANCING SOURCES (USES)				
Transfer out	(50,000)	(50,000)	-	50,000
Total Other Financing Sources (Uses)	(50,000)	(50,000)	-	50,000
Net Change in Fund Balances	\$ (49,079)	\$ (49,079)	(15,739)	\$ 33,340
Fund Balances - beginning			49,179	
Fund Balances - ending			\$ 33,440	

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 54
CREST FOREST**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 54
Crest Forest
Table of Contents**

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT		1 - 2
BASIC FINANCIAL STATEMENTS		
Government-Wide Financial Statements		
Statement of Net Assets	A	3
Statement of Activities	B	4
Fund Financial Statements		
Balance Sheet - Governmental Fund	C	5
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund	D	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to the Statement of Activities	E	7
Notes to Financial Statements		8 - 15
Required Supplementary Information	<u>Schedule</u>	
Budgetary Comparison Schedule - Special Revenue Fund (General)	One	16



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

DONALD L. ROGERS, C.P.A.
JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
PHILLIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.

CYNTHIA L. SAKS, C.P.A.
LEENA SHANBHAG, C.P.A.
NANCY O'RAFFERTY, C.P.A.
KATHLEEN L. DEVALK, C.P.A.
LAURIE K. MARSCHER, C.P.A.
THOMAS T. PRILL, C.P.A.
JENNIFER L. STARBUCK, C.P.A.
JOSEPH P. WALSH, C.P.A.
SO MAN (PEONY) CHENG, C.P.A.
SCOTT W. MANNO, C.P.A.
YUAN (PATRICIA) SONG, C.P.A.
JANET M. VRYHEID, C.P.A.

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 54 - Crest Forest

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 54 - Crest Forest (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 54 - Crest Forest, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

VANIR TOWER • 290 NORTH "D" STREET • SUITE 300
SAN BERNARDINO, CA 92401
(909) 859-0871 • (909) 824-6736 • FAX (909) 889-5361
E-mail: rams@ramscpa.net

The County of San Bernardino Special District County Service Area No. 54 - Crest Forest has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

County of San Bernardino Special Districts
County Service Area No. 54 - Crest Forest
Statement of Net Assets
June 30, 2003

ASSETS

Cash and cash equivalents	\$ 9,240
Interest receivable	36
Taxes receivable	<u>3,245</u>
Total Assets	<u>12,521</u>

LIABILITIES

Due to other governments	<u>373</u>
--------------------------	------------

NET ASSETS

Unrestricted	<u>12,148</u>
Total Net Assets	<u><u>\$ 12,148</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 54 - Crest Forest
Statement of Activities
For the Year Ended June 30, 2003

EXPENSES

Salaries and benefits	\$ 8,326
Services and supplies	22,030
Total Program Expenses	<u>30,356</u>

PROGRAM REVENUES

Net Program Expense	<u>(30,356)</u>
---------------------	-----------------

GENERAL REVENUES

Property taxes	23,550
Other taxes	927
State assistance	522
Investment earnings	166
Other	109
Total General Revenues	<u>25,274</u>

Change in Net Assets	(5,082)
----------------------	---------

Net Assets - beginning	<u>17,230</u>
-------------------------------	---------------

Net Assets - ending	<u><u>\$ 12,148</u></u>
----------------------------	-------------------------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 54 - Crest Forest
Balance Sheet
Governmental Fund
June 30, 2003

	SPECIAL REVENUE FUND
	General (SJV)
ASSETS	
Cash and cash equivalents	\$ 9,240
Interest receivable	36
Taxes receivable	1,347
	<hr/>
Total Assets	\$ 10,623
	<hr/>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Due to other governments	\$ 373
	<hr/>
Total Liabilities	373
	<hr/>
Fund Balances:	
Unreserved:	
Undesignated	10,250
	<hr/>
Total Fund Balances	10,250
	<hr/>
Total Liabilities and Fund Balances	\$ 10,623
	<hr/>
Total fund balances - governmental fund	\$ 10,250
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental fund.	
Property tax revenue	1,898
	<hr/>
Net assets of governmental fund	\$ 12,148
	<hr/>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 54 - Crest Forest
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2003

	SPECIAL REVENUE FUND <hr/> General (SJV) <hr/>
REVENUES	
Property taxes	\$ 23,567
Other taxes	927
Other state aid	522
Investment earnings	166
Other	109
	<hr/>
Total Revenue	25,291
	<hr/>
EXPENDITURES	
Salaries and benefits	8,326
Services and supplies	22,030
	<hr/>
Total Expenditures	30,356
	<hr/>
Net Change in Fund Balances	(5,065)
	<hr/>
Fund Balances - beginning	15,315
	<hr/>
Fund Balances - ending	\$ 10,250
	<hr/>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 54 - Crest Forest
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Fund to the
Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Fund	\$	(5,065)
---	----	---------

Amounts reported for governmental activities in the statement of activities are different because:

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental fund.

Property tax revenue - current year		1,898
-------------------------------------	--	-------

Property tax revenue - prior year		(1,915)
-----------------------------------	--	---------

Change in net assets of governmental activities	\$	(5,082)
---	----	---------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 54 - Crest Forest
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 54 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to provide financing for the maintenance of 127 street lights.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 54 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 54 - Crest Forest
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts
County Service Area No. 54 - Crest Forest
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

County of San Bernardino Special Districts
County Service Area No. 54 - Crest Forest
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Currently, the CSA does not have any capital assets.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino Special Districts
County Service Area No. 54 - Crest Forest
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 54 - Crest Forest
Notes to Financial Statements
June 30, 2003**

NOTE 3: RETIREMENT PLAN (continued)

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Pension Cost (in thousands)	Percentage Contributed
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 4: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

County of San Bernardino Special Districts
County Service Area No. 54 - Crest Forest
Notes to Financial Statements
June 30, 2003

NOTE 5: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 54 - Crest Forest
Notes to Financial Statements
June 30, 2003**

NOTE 5: RISK MANAGEMENT (continued)

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 6: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 7: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 54 - Crest Forest
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2003

	Special Revenue Fund			
	General (SJV)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 23,455	\$ 23,455	\$ 23,567	\$ 112
Other taxes	-	-	927	927
Other state aid	-	-	522	522
Investment earnings	500	500	166	(334)
Other	-	-	109	109
Total Revenues	23,955	23,955	25,291	1336
EXPENDITURES				
Salaries and benefits	8,326	8,326	8,326	-
Services and supplies	30,751	30,751	22,030	8,721
Reserves and contingencies	193	193	-	193
Total Expenditures	39,270	39,270	30,356	8,914
Net Change in Fund Balances	\$ (15,315)	\$ (15,315)	(5,065)	\$ 10,250
Fund Balances - beginning			15,315	
Fund Balances - ending			\$ 10,250	

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 56
WRIGHTWOOD AND ZONE F1
PINON HILLS**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 56
Wrightwood and Zone F1 - Pinon Hills
Table of Contents**

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT		1 - 2
BASIC FINANCIAL STATEMENTS		
Government-Wide Financial Statements		
Statement of Net Assets	A	3
Statement of Activities	B	4
Fund Financial Statements		
Balance Sheet - Governmental Funds	C	5 - 6
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	D	7 - 8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	E	9
Statement of Net Assets - Proprietary Fund	F	10
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund	G	11
Statement of Cash Flows - Proprietary Fund	H	12
Notes to Financial Statements		13 - 24
Required Supplementary Information	<u>Schedule</u>	
Budgetary Comparison Schedule - Special Revenue Funds (General, Park, Community Donations)	One	25 - 27
Combining Schedules		
Combining Balance Sheet - Nonmajor Governmental Funds	Two	28 - 29
Combining Statement of Revenues, Expenses and Changes in Fund Balances - Nonmajor Governmental Funds	Three	30 - 31



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

DONALD L. ROGERS, C.P.A.
JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
PHILLIP H. WALLER, C.P.A.
BRENDA L. OGLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.

CYNTHIA L. SAKS, C.P.A.
LEENA SHANBHAG, C.P.A.
NANCY O'RAFFERTY, C.P.A.
KATHLEEN L. DEVALK, C.P.A.
LAURIE K. MARSCHER, C.P.A.
THOMAS T. PRILL, C.P.A.
JENNIFER L. STARBUCK, C.P.A.
JOSEPH P. WALSH, C.P.A.
SO MAN (PEONY) CHENG, C.P.A.
SCOTT W. MANNO, C.P.A.
YUAN (PATRICIA) SONG, C.P.A.
JANET M. VRYHEID, C.P.A.

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 56 - Wrightwood and Zone F1 - Pinon Hills

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the County of San Bernardino Special District County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on pages 25 - 27 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

VANIR TOWER • 290 NORTH "D" STREET • SUITE 300
SAN BERNARDINO, CA 92401
(909) 889-0871 • (909) 824-6736 • FAX (909) 889-5361
E-mail: rams@ramscpa.net

The County of San Bernardino Special District County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CSA's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

September 26, 2003

This page left blank intentionally.

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Statement of Net Assets
June 30, 2003

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 385,104	\$ 623,998	\$ 1,009,102
Accounts receivable, net	-	152,712	152,712
Special activities fund	428	-	428
Interest receivable	1,395	3,365	4,760
Taxes receivable	149,963	-	149,963
Due from other governments	78,679	-	78,679
Capital assets, net of depreciation	786,603	130,343	916,946
Total Assets	1,402,172	910,418	2,312,590
LIABILITIES			
Salaries and benefits payable	10,531	-	10,531
Due to other governments	61,479	-	61,479
Compensated absences payable	9,177	-	9,177
Total Liabilities	81,187	-	81,187
NET ASSETS			
Invested in capital assets	786,603	130,343	916,946
Restricted	428	-	428
Unrestricted	533,954	780,075	1,314,029
Total Net Assets	\$ 1,320,985	\$ 910,418	\$ 2,231,403

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Services Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Statement of Activities
For the Year Ended June 30, 2003

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Salaries and benefits	\$ 1,369,552	\$ 42,543	\$ 1,412,095
Services and supplies	412,769	614,234	1,027,003
Intergovernmental	52,606	-	52,606
Depreciation	36,601	44,753	81,354
Professional fees	-	43,527	43,527
Total Program Expenses	<u>1,871,528</u>	<u>745,057</u>	<u>2,616,585</u>
PROGRAM REVENUES			
Charges for services	6,573	1,259,290	1,265,863
Operating grants and contributions	16,743	-	16,743
Net Program (Expense) Revenue	<u>(1,848,212)</u>	<u>514,233</u>	<u>(1,333,979)</u>
GENERAL REVENUES			
Property taxes	1,045,090	-	1,045,090
Other taxes	46,488	-	46,488
State assistance	209,298	-	209,298
Interest	6,350	18,561	24,911
Loss on sale of capital assets	(1,094)	(3,101)	(4,195)
Other	35,136	-	35,136
TRANSFERS - INTERNAL ACTIVITIES	659,800	(659,800)	-
Total General Revenues and Transfers	<u>2,001,068</u>	<u>(644,340)</u>	<u>1,356,728</u>
Change in Net Assets	152,856	(130,107)	22,749
Net Assets - beginning	<u>1,168,129</u>	<u>1,040,525</u>	<u>2,208,654</u>
Net Assets - ending	<u>\$ 1,320,985</u>	<u>\$ 910,418</u>	<u>\$ 2,231,403</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Balance Sheet
Governmental Funds
June 30, 2003

	SPECIAL REVENUE FUNDS		
	General (SJY)	Park (F-1) (SKG)	Community Donations (SKD)
ASSETS			
Cash and cash equivalents	\$ 65,639	\$ 66,769	\$ 166,219
Special activities fund	-	-	428
Interest receivable	-	339	763
Taxes receivable	49,103	7,844	3,770
Due from other funds	5,522	-	10,475
Due from other governments	78,679	-	-
Total Assets	<u>\$ 198,943</u>	<u>\$ 74,952</u>	<u>\$ 181,655</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and benefits payable	\$ 5,658	\$ 1,192	\$ 2,790
Due to other funds	18,829	24	2,912
Due to other governments	61,479	-	-
Total Liabilities	<u>85,966</u>	<u>1,216</u>	<u>5,702</u>
Fund Balances:			
Reserved for:			
Special activities	-	-	428
Unreserved:			
Undesignated	112,977	73,736	175,525
Total Fund Balances	<u>112,977</u>	<u>73,736</u>	<u>175,953</u>
Total Liabilities and Fund Balances	<u>\$ 198,943</u>	<u>\$ 74,952</u>	<u>\$ 181,655</u>

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.
Property tax revenue

Compensated absences payable are not financial resources, and therefore, are not reported in the funds.

Net assets of governmental funds

The accompanying notes are an integral part of these financial statements.

OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
\$ 86,477	\$ 385,104
-	428
293	1,395
-	60,717
8,354	24,351
-	78,679
<u>\$ 95,124</u>	<u>\$ 550,674</u>
\$ 891	\$ 10,531
2,586	24,351
-	61,479
<u>3,477</u>	<u>96,361</u>
-	428
91,647	453,885
<u>91,647</u>	<u>454,313</u>
<u>\$ 95,124</u>	
	786,603
	-
	89,246
	<u>(9,177)</u>
	<u>\$ 1,320,985</u>

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	SPECIAL REVENUE FUNDS		
	General (SJY)	Park (F-1) (SKG)	Community Donations (SKD)
REVENUES			
Property taxes	\$ 836,096	\$ 104,418	\$ 71,493
Other taxes	40,340	6,148	-
State assistance	45,279	3,035	160,984
Investment earnings	-	1,438	3,281
Service fees	-	-	4,417
Contributions	-	-	100
Other	35,126	10	-
Total Revenues	956,841	115,049	240,275
EXPENDITURES			
Salaries and benefits	1,223,260	64,801	57,193
Services and supplies	288,301	62,148	42,650
Capital outlay:			
Equipment	21,144	-	-
Structures and improvements	-	-	-
Total Expenditures	1,532,705	126,949	99,843
Excess of Revenues Over (Under) Expenditures	(575,864)	(11,900)	140,432
OTHER FINANCING SOURCES (USES)			
Reimbursements	-	-	6,724
Transfer in	737,997	-	35,565
Transfer out	(155,713)	-	(100,000)
Total Other Financing Sources (Uses)	582,284	-	(57,711)
Net Change in Fund Balances	6,420	(11,900)	82,721
Fund Balances - beginning	106,557	85,636	93,232
Fund Balances - ending	\$ 112,977	\$ 73,736	\$ 175,953

The accompanying notes are an integral part of these financial statements.

OTHER GOVERNMENTAL FUNDS	Total Governmental Funds
\$ 30,145	\$ 1,042,152
-	46,488
-	209,298
1,631	6,350
2,156	6,573
-	100
-	35,136
<u>33,932</u>	<u>1,346,097</u>
21,992	1,367,246
19,670	412,769
-	21,144
<u>35,083</u>	<u>35,083</u>
<u>76,745</u>	<u>1,836,242</u>
<u>(42,813)</u>	<u>(490,145)</u>
9,919	16,643
123,760	897,322
<u>(34,415)</u>	<u>(290,128)</u>
<u>99,264</u>	<u>623,837</u>
56,451	133,692
<u>35,196</u>	<u>320,621</u>
<u>\$ 91,647</u>	<u>\$ 454,313</u>

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$	133,692
--	----	---------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.

19,626

The net effect of capital outlay transactions to increase net assets.

Loss on sale of capital assets

(1,094)

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue - current year

89,246

Property tax revenue - prior year

(86,308)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Increase in compensated absences payable

(2,306)

Change in net assets of governmental activities

\$ 152,856

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Statement of Net Assets
Proprietary Fund
June 30, 2003

	ENTERPRISE FUND Ambulance
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 623,998
Accounts receivable, net	152,712
Interest receivable	3,365
Total Current Assets	<u>780,075</u>
Noncurrent assets:	
Capital assets:	
Vehicles	455,903
Accumulated depreciation	<u>(325,560)</u>
Total Noncurrent Assets	<u>130,343</u>
Total Assets	<u>910,418</u>
LIABILITIES	<u>-</u>
NET ASSETS	
Invested in capital assets	130,343
Unrestricted	<u>780,075</u>
Total Net Assets	<u>\$ 910,418</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2003

	ENTERPRISE FUND <u>Ambulance</u>
OPERATING REVENUES	
Service fees	\$ 1,259,290
Total Operating Revenues	<u>1,259,290</u>
OPERATING EXPENSES	
Professional services	43,527
Salaries and benefits	42,543
Services and supplies	614,234
Depreciation	<u>44,753</u>
Total Operating Expenses	<u>745,057</u>
Operating Income	<u>514,233</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	18,561
Loss on sale of capital assets	<u>(3,101)</u>
Total Nonoperating Revenues (Expenses)	<u>15,460</u>
Income Before Transfers	529,693
TRANSFERS OUT	<u>(659,800)</u>
Change in Net Assets	(130,107)
Net Assets - beginning	<u>1,040,525</u>
Net Assets - ending	<u>\$ 910,418</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2003

	ENTERPRISE FUND Ambulance
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,392,921
Payments to suppliers	(657,761)
Payments to employees	(42,543)
Net Cash Provided By Operating Activities	<u>692,617</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers out	(659,800)
Net Cash (Used For) Noncapital Financing Activities	<u>(659,800)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(84,998)
Net Cash (Used For) Capital and Related Financing Activities	<u>(84,998)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	21,235
Net Cash Provided By Investing Activities	<u>21,235</u>
Net Decrease in Cash and Cash Equivalents	(30,946)
Cash and Cash Equivalents - beginning of the year	<u>654,944</u>
Cash and Cash Equivalents - end of the year	<u><u>\$ 623,998</u></u>
Noncash Investing, Capital and Financing Activities:	
NONE	
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 514,233
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	44,753
Change in assets and liabilities:	
Decrease in accounts receivable, net	133,631
Net Cash Provided By Operating Activities	<u><u>\$ 692,617</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 56 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) to provide ambulance, fire, park and recreation services along with one community center and one senior center to the communities of Wrightwood and Pinon Hills.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 56 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* labeled "Park" provides park services to the community of Pinon Hills.

The *special revenue fund* labeled "Community Donations" provides park and recreation services to the community of Wrightwood. It also maintains a community center and senior center, and provides various park and recreation activities.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Ambulance" accounts for the activities of the CSA, a blended component unit of the County. The CSA operates the ambulance transportation services under the administration of the County Fire Department.

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the CSA enterprise fund is charges to customers for ambulance transportation services. Operating expenses for enterprise funds include the cost of salaries and benefits, service and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All accounts receivable are shown net of an allowance for uncollectibles when applicable. The accounts receivable balance of the Ambulance Enterprise Fund at June 30, 2003 is net of an allowance for doubtful accounts of \$524,790.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The CSA is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2003 was as follows:

Beginning Balance	Additions	Deletions	Ending Balance
\$ 6,871	\$ 12,845	\$ 10,539	\$ 9,177

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$19,626 difference are as follows:

Capital outlay	\$ 56,227
Depreciation expense	<u>(36,601)</u>
Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 19,626</u>

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: ACCOUNTS RECEIVABLE

At June 30, 2003, the accounts receivable were composed of the following:

	<u>Ambulance</u>
Accounts	\$ 677,502
Less: allowance for uncollectibles	<u>(524,790)</u>
Net Total Accounts Receivable	<u>\$ 152,712</u>

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Notes to Financial Statements
June 30, 2003

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at June 30, 2003, are as follows:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General (SJY)	\$ 5,522	\$ 18,829
Community Donation (SKD)	10,475	2,912
Fire (F-1) (SKH)	8,354	2,586
Park (F-1) (SKG)	-	24
Total	\$ 24,351	\$ 24,351

NOTE 5: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 56,276	\$ -	\$ -	\$ 56,276
Construction in progress	9,820	35,083	-	44,903
Total capital assets, not being depreciated	66,096	35,083	-	101,179
Capital assets, being depreciated:				
Land improvements	151,452	-	-	151,452
Structures and improvements	1,117,545	-	-	1,117,545
Vehicles	524,464	-	-	524,464
Equipment	93,022	21,144	(8,212)	105,954
Total capital assets, being depreciated	1,886,483	21,144	(8,212)	1,899,415
Less accumulated depreciation for:				
Land improvements	(90,850)	(5,924)	-	(96,774)
Structures and improvements	(511,337)	(24,811)	-	(536,148)
Vehicles	(524,464)	-	-	(524,464)
Equipment	(57,857)	(5,866)	7,118	(56,605)
Total accumulated depreciation	(1,184,508)	(36,601)	7,118	(1,213,991)
Total capital assets, being depreciated, net	701,975	(15,457)	(1,094)	685,424
Governmental activities capital assets, net	\$ 768,071	\$ 19,626	\$ (1,094)	\$ 786,603

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Notes to Financial Statements
June 30, 2003

NOTE 5: CAPITAL ASSETS (continued)

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets, being depreciated:				
Vehicles	\$ 316,287	\$ 139,616	\$ -	\$ 455,903
Equipment	15,497	-	(15,497)	-
Total capital assets, being depreciated	331,784	139,616	(15,497)	455,903
Less accumulated depreciation for:				
Vehicles	(226,189)	(99,371)	-	(325,560)
Equipment	(12,396)	-	12,396	-
Total accumulated depreciation	(238,585)	(99,371) *	12,396	(325,560)
Business-type activities capital assets, net	<u>\$ 93,199</u>	<u>\$ 40,245</u>	<u>\$ (3,101)</u>	<u>\$ 130,343</u>

* This amount includes current year depreciation expense of \$44,753 and \$54,618 for accumulated depreciation as of 1/31/03 for a vehicle with a cost of \$54,618 transferred to the CSA in the current year.

NOTE 6: SPECIAL ACTIVITIES FUND

The CSA operates a revolving fund in accordance with Public Resources Code Section 5784.35. The fund is for the purpose of conducting and supervising special recreational activities. The revenue received and expenses paid are kept in commercial banks. Because the recreational activities are self-funded and are not apart of the CSA's budget, only the cash balance and related equity are reported on the CSA's *Balance Sheet* and *Statement of Net Assets*. Profits earned from special activities are reflected as part of charges for services on the *Statement of Activities* and as service fees on the *Statement of Revenues, Expenditures and Changes in Fund Balance*. The net decrease in cash from June 30, 2002 to June 30, 2003 is \$4,148.

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Notes to Financial Statements
June 30, 2003

NOTE 7: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. The CSA paid \$98,439 to the plan as the employer's portion. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Notes to Financial Statements
June 30, 2003

NOTE 7: RETIREMENT PLAN (continued)

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 8: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 9: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$70,002 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Notes to Financial Statements
June 30, 2003

NOTE 9: RISK MANAGEMENT (continued)

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Notes to Financial Statements
June 30, 2003

NOTE 10: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2003, the CSA made the following interfund transfers in and out:

	Transfer in:				Total
	Restroom	Community Donation	Fire (F-1)	General	
Transfer out:					
Community					
Donation (SKD)	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
Senior Center (SKC)	-	17,208	17,207	-	34,415
Ambulance (EBD)	-	-	-	659,800	659,800
Total	<u>\$ 100,000</u>	<u>\$ 17,208</u>	<u>\$ 17,207</u>	<u>\$ 659,800</u>	<u>\$ 794,215</u>

NOTE 11: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 12: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Budgetary Comparison Schedule - Special Revenue Funds
For the Year Ended June 30, 2003

	Special Revenue Fund			
	General (SJY)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Property taxes	\$ 834,252	\$ 834,252	\$ 836,096	\$ 1,844
Other taxes	-	-	40,340	40,340
State assistance	-	-	45,279	45,279
Investment earnings	-	-	-	-
Service fees	-	-	-	-
Contributions	-	-	-	-
Other	35,269	35,269	35,126	(143)
Total Revenues	<u>869,521</u>	<u>869,521</u>	<u>956,841</u>	<u>87,320</u>
EXPENDITURES:				
Salaries and benefits	1,226,643	1,226,643	1,223,260	3,383
Services and supplies	285,608	285,608	288,301	(2,693)
Capital outlay:				
Equipment	22,500	22,500	21,144	1,356
Reserves and contingencies	65,928	65,928	-	65,928
Total Expenditures	<u>1,600,679</u>	<u>1,600,679</u>	<u>1,532,705</u>	<u>67,974</u>
Excess of Revenues Over (Under) Expenditures	<u>(731,158)</u>	<u>(731,158)</u>	<u>(575,864)</u>	<u>155,294</u>
OTHER FINANCING SOURCES (USES)				
Reimbursements	-	-	-	-
Transfer in	825,353	825,353	737,997	(87,356)
Transfer out	(200,252)	(200,252)	(155,713)	44,539
Total Other Financing Sources (Uses)	<u>625,101</u>	<u>625,101</u>	<u>582,284</u>	<u>(42,817)</u>
Net Change in Fund Balances	<u>\$ (106,057)</u>	<u>\$ (106,057)</u>	6,420	<u>\$ 112,477</u>
Fund Balances - beginning			106,557	
Fund Balances - ending			<u>\$ 112,977</u>	

Special Revenue Fund			
Park F-1 (SKG)			
Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
\$ 106,312	\$ 106,312	\$ 104,418	\$ (1,894)
-	-	6,148	6,148
-	-	3,035	3,035
1,800	1,800	1,438	(362)
-	-	-	-
-	-	-	-
-	-	10	10
<u>108,112</u>	<u>108,112</u>	<u>115,049</u>	<u>6,937</u>
60,314	67,314	64,801	2,513
90,768	83,768	62,148	21,620
-	-	-	-
42,666	42,666	-	42,666
<u>193,748</u>	<u>193,748</u>	<u>126,949</u>	<u>66,799</u>
<u>(85,636)</u>	<u>(85,636)</u>	<u>(11,900)</u>	<u>73,736</u>
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>\$ (85,636)</u>	<u>\$ (85,636)</u>	<u>(11,900)</u>	<u>\$ 73,736</u>
		<u>85,636</u>	
		<u>\$ 73,736</u>	

This page left blank intentionally.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Budgetary Comparison Schedule - Special Revenue Funds
For the Year Ended June 30, 2003

	Special Revenue Fund			
	Community Donations (SKD)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Property taxes	\$ 71,303	\$ 71,303	\$ 71,493	\$ 190
Other taxes	-	-	-	-
State assistance	100,000	200,000	160,984	(39,016)
Investment earnings	4,000	4,000	3,281	(719)
Service fees	7,000	7,000	4,417	(2,583)
Contributions	-	-	100	100
Other	-	-	-	-
Total Revenues	<u>182,303</u>	<u>282,303</u>	<u>240,275</u>	<u>(42,028)</u>
EXPENDITURES:				
Salaries and benefits	87,524	87,524	57,193	30,331
Services and supplies	52,273	52,273	42,650	9,623
Capital outlay:				
Equipment	-	-	-	-
Reserves and contingencies	56,162	56,162	-	56,162
Total Expenditures	<u>195,959</u>	<u>195,959</u>	<u>99,843</u>	<u>96,116</u>
Excess of Revenues Over (Under) Expenditures	<u>(13,656)</u>	<u>86,344</u>	<u>140,432</u>	<u>54,088</u>
OTHER FINANCING SOURCES (USES)				
Reimbursements	-	-	6,724	6,724
Transfer in	25,000	25,000	35,565	10,565
Transfer out	(100,000)	(200,000)	(100,000)	100,000
Total Other Financing Sources (Uses)	<u>(75,000)</u>	<u>(175,000)</u>	<u>(57,711)</u>	<u>117,289</u>
Net Change in Fund Balances	<u>\$ 88,656</u>	<u>\$ (88,656)</u>	<u>82,721</u>	<u>\$ 171,377</u>
Fund Balances - beginning			<u>93,232</u>	
Fund Balances - ending			<u>\$ 175,953</u>	

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003

	SPECIAL REVENUE FUNDS		
	Park Donation (SKB)	Senior Center (SKC)	Fire (F-1) (SKH)
ASSETS			
Cash and cash equivalents	\$ 169	\$ 433	\$ 19,053
Interest receivable	1	49	98
Due from other funds	-	-	8,354
Total Assets	<u>\$ 170</u>	<u>\$ 482</u>	<u>\$ 27,505</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and benefits payable	\$ -	\$ -	\$ 891
Due to other funds	-	-	2,586
Total Liabilities	<u>-</u>	<u>-</u>	<u>3,477</u>
Fund Balances			
Unreserved:			
Undesignated	<u>170</u>	<u>482</u>	<u>24,028</u>
Total Fund Balances	<u>170</u>	<u>482</u>	<u>24,028</u>
Total Liabilities and Fund Balances	<u>\$ 170</u>	<u>\$ 482</u>	<u>\$ 27,505</u>

CAPITAL PROJECTS FUND		Total Nonmajor Governmental Funds (see Exhibit C)
Senior Ceiling (CJG)	Restroom (CLZ)	
\$ 1,642 9	\$ 65,180 136	\$ 86,477 293
-	-	8,354
<u>\$ 1,651</u>	<u>\$ 65,316</u>	<u>\$ 95,124</u>
\$ -	\$ -	\$ 891
-	-	2,586
-	-	3,477
1,651	65,316	91,647
1,651	65,316	91,647
<u>\$ 1,651</u>	<u>\$ 65,316</u>	<u>\$ 95,124</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 56 - Wrightwood and Zone F1 - Pinon Hills
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2003

	SPECIAL REVENUE FUNDS		
	Park Donation (SKB)	Senior Center (SKC)	Fire (F-1) (SKH)
REVENUES			
Property taxes	\$ -	\$ -	\$ 30,145
Service fees	-	-	2,156
Investment earnings	5	776	394
Total Revenues	5	776	32,695
EXPENDITURES			
Salaries and benefits	-	-	21,992
Service and supplies	-	-	19,670
Capital outlay:			
Structures and improvements	-	-	-
Total Expenditures	-	-	41,662
Excess of Revenues Over (Under) Expenditures	5	776	(8,967)
OTHER FINANCING SOURCES (USES)			
Reimbursements	-	-	8,355
Transfer in	-	6,553	17,207
Transfer out	-	(34,415)	-
Total Other Financing Sources (Uses)	-	(27,862)	25,562
Net Change in Fund Balances	5	(27,086)	16,595
Fund balances - beginning	165	27,568	7,433
Fund balances - ending	\$ 170	\$ 482	\$ 24,028

The accompanying notes are an integral part of these financial statements.

CAPITAL PROJECTS FUND		Total Nonmajor Governmental Funds (see Exhibit D)
Senior Ceiling (CJG)	Restroom (CLZ)	
\$ -	\$ -	\$ 30,145
-	-	2,156
57	399	1,631
57	399	33,932
-	-	21,992
-	-	19,670
-	35,083	35,083
-	35,083	76,745
57	(34,684)	(42,813)
1,564	-	9,919
-	100,000	123,760
-	-	(34,415)
1,564	100,000	99,264
1,621	65,316	56,451
30	-	35,196
\$ 1,651	\$ 65,316	\$ 91,647



**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 59
DEER LODGE**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 59
Deer Lodge
Table of Contents**

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT		1 - 2
BASIC FINANCIAL STATEMENTS		
Government-Wide Financial Statements		
Statement of Net Assets	A	3
Statement of Activities	B	4
Fund Financial Statements		
Balance Sheet - Governmental Funds	C	5
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	D	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	E	7
Notes to Financial Statements		8 - 16
Required Supplementary Information	<u>Schedule</u>	
Budgetary Comparison Schedule - Special Revenue Fund (General)	One	17



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

DONALD L. ROGERS, C.P.A.
JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
PHILLIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.

CYNTHIA L. SAKS, C.P.A.
LEENA SHANBHAG, C.P.A.
NANCY O'RAFFERTY, C.P.A.
KATHLEEN L. DEVALK, C.P.A.
LAURIE K. MARSCHER, C.P.A.
THOMAS T. PRILL, C.P.A.
JENNIFER L. STARBUCK, C.P.A.
JOSEPH P. WALSH, C.P.A.
SO MAN (PEONY) CHENG, C.P.A.
SCOTT W. MANNO, C.P.A.
YUAN (PATRICIA) SONG, C.P.A.
JANET M. VRYHEID, C.P.A.

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 59 - Deer Lodge

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 59 - Deer Lodge (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 59 - Deer Lodge, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

VANIR TOWER • 290 NORTH "D" STREET • SUITE 300
SAN BERNARDINO, CA 92401
(909) 889-0871 • (909) 824-6736 • FAX (909) 889-5361
E-mail: rams@ramscpa.net

The County of San Bernardino Special District County Service Area No. 59 - Deer Lodge has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

County of San Bernardino Special Districts
County Service Area No. 59 - Deer Lodge
Statement of Net Assets
June 30, 2003

ASSETS

Cash and cash equivalents	\$ 29,864
Interest receivable	137
Taxes receivable	2,991
Capital assets, net of depreciation	<u>892,160</u>
Total Assets	<u>925,152</u>

LIABILITIES

Due to other governments	<u>254</u>
--------------------------	------------

NET ASSETS

Invested in capital assets	892,160
Unrestricted	<u>32,738</u>
Total Net Assets	<u><u>\$ 924,898</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 59 - Deer Lodge
Statement of Activities
For the Year Ended June 30, 2003

EXPENSES

Salaries and benefits	\$ 7,213
Services and supplies	15,269
Depreciation	31,267
Total Program Expenses	<u>53,749</u>

PROGRAM REVENUES

Net Program Expense	<u>(53,749)</u>
---------------------	-----------------

GENERAL REVENUES

Property taxes	21,198
Other taxes	848
State assistance	480
Investment earnings	1,146
Total General Revenues	<u>23,672</u>

Change in Net Assets	(30,077)
----------------------	----------

Net Assets - beginning	<u>954,975</u>
------------------------	----------------

Net Assets - ending	<u>\$ 924,898</u>
---------------------	-------------------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 59 - Deer Lodge
Balance Sheet
Governmental Funds
June 30, 2003

	SPECIAL REVENUE FUND General (SKJ)	CAPITAL PROJECTS FUND Paving (CMS)	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 23,848	\$ 6,016	\$ 29,864
Interest receivable	101	36	137
Taxes receivable	1,238	-	1,238
Total Assets	<u>\$ 25,187</u>	<u>\$ 6,052</u>	<u>\$ 31,239</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other governments	\$ 254	\$ -	\$ 254
Total Liabilities	<u>254</u>	<u>-</u>	<u>254</u>
Fund Balances:			
Unreserved:			
Undesignated	24,933	6,052	30,985
Total Fund Balances	<u>24,933</u>	<u>6,052</u>	<u>30,985</u>
Total Liabilities and Fund Balances	<u>\$ 25,187</u>	<u>\$ 6,052</u>	

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

892,160

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue

1,753

Net assets of governmental funds

\$ 924,898

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 59 - Deer Lodge
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	SPECIAL REVENUE FUND General (SKJ)	CAPITAL PROJECTS FUND Paving (CMS)	Total Governmental Funds
REVENUES			
Property taxes	\$ 21,206	\$ -	\$ 21,206
Other taxes	848	-	848
State assistance	480	-	480
Investment earnings	910	236	1,146
Total Revenues	<u>23,444</u>	<u>236</u>	<u>23,680</u>
EXPENDITURES			
Salaries and benefits	7,213	-	7,213
Services and supplies	15,269	-	15,269
Capital outlay:			
Improvements to land	-	16,684	16,684
Total Expenditures	<u>22,482</u>	<u>16,684</u>	<u>39,166</u>
Excess of Revenues Over (Under) Expenditures	<u>962</u>	<u>(16,448)</u>	<u>(15,486)</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	-	22,500	22,500
Transfer out	(22,500)	-	(22,500)
Total Other Financing Sources (Uses)	<u>(22,500)</u>	<u>22,500</u>	<u>-</u>
Net Change in Fund Balances	(21,538)	6,052	(15,486)
Fund Balances - beginning	<u>46,471</u>	<u>-</u>	<u>46,471</u>
Fund Balances - ending	<u><u>\$ 24,933</u></u>	<u><u>\$ 6,052</u></u>	<u><u>\$ 30,985</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 59 - Deer Lodge
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$	(15,486)
--	----	----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.		(14,583)
--	--	----------

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue - current year		1,753
Property tax revenue - prior year		(1,761)

Change in net assets of governmental activities	\$	<u>(30,077)</u>
---	----	-----------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 59 - Deer Lodge
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 59 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 5 miles of paved roads.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 59 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 59 - Deer Lodge
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* labeled "Paving" is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts
County Service Area No. 59 - Deer Lodge
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**County of San Bernardino Special Districts
County Service Area No. 59 - Deer Lodge
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$(14,583) difference are as follows:

Capital outlay	\$ 16,684
Depreciation expense	<u>(31,267)</u>
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u><u>\$ (14,583)</u></u>

**County of San Bernardino Special Districts
County Service Area No. 59 - Deer Lodge
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**County of San Bernardino Special Districts
County Service Area No. 59 - Deer Lodge
Notes to Financial Statements
June 30, 2003**

NOTE 3: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 16,684	\$ -	\$ 16,684
Total capital assets, not being depreciated	-	16,684	-	16,684
Capital assets, being depreciated:				
Infrastructure	1,250,680	-	-	1,250,680
Total capital assets, being depreciated	1,250,680	-	-	1,250,680
Less accumulated depreciation for:				
Infrastructure	(343,937)	(31,267)	-	(375,204)
Total accumulated depreciation	(343,937)	(31,267)	-	(375,204)
Total capital assets, being depreciated, net	906,743	(31,267)	-	875,476
Governmental activities capital assets, net	\$ 906,743	\$ (14,583)	\$ -	\$ 892,160

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

**County of San Bernardino Special Districts
County Service Area No. 59 - Deer Lodge
Notes to Financial Statements
June 30, 2003**

NOTE 4: RETIREMENT PLAN (continued)

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Pension Cost (in thousands)	Percentage Contributed
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

County of San Bernardino Special Districts
County Service Area No. 59 - Deer Lodge
Notes to Financial Statements
June 30, 2003

NOTE 5: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 6: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 59 - Deer Lodge
Notes to Financial Statements
June 30, 2003

NOTE 6: RISK MANAGEMENT (continued)

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 7: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2003, the CSA made the following interfund transfers in and out:

	<u>Transfers in:</u>
	Paving (CMS)
Transfers out:	
General (SKJ)	<u>\$ 22,500</u>

NOTE 8: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 9: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 59 - Deer Lodge
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2003

	Special Revenue Fund			
	General (SKJ)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 21,191	\$ 21,191	\$ 21,206	\$ 15
Other taxes	-	-	848	848
State assistance	-	-	480	480
Investment earnings	1,000	1,000	910	(90)
Total Revenues	22,191	22,191	23,444	1,253
EXPENDITURES				
Salaries and benefits	7,213	7,213	7,213	-
Services and supplies	31,862	31,862	15,269	16,593
Reserves and contingencies	7,086	7,086	-	7,086
Total Expenditures	46,161	46,161	22,482	23,679
Excess of Revenues Over (Under) Expenditures	(23,970)	(23,970)	962	24,932
OTHER FINANCING SOURCES (USES)				
Transfer out	(22,500)	(22,500)	(22,500)	-
Total Other Financing Sources (Uses)	(22,500)	(22,500)	(22,500)	-
Net Change in Fund Balances	\$ (46,470)	\$ (46,470)	(21,538)	\$ 24,932
Fund Balances - beginning			46,471	
Fund Balances - ending			\$ 24,933	

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 63
YUCAIPA AND OAK GLEN**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 63
Yucaipa and Oak Glen
Table of Contents**

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT		1 - 2
BASIC FINANCIAL STATEMENTS		
Government-Wide Financial Statements		
Statement of Net Assets	A	3
Statement of Activities	B	4
Fund Financial Statements		
Balance Sheet - Governmental Funds	C	5
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	D	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	E	7
Notes to Financial Statements		8 - 16
Required Supplementary Information	<u>Schedule</u>	
Budgetary Comparison Schedule - Special Revenue Fund (General)	One	17
Combining Schedules		
Combining Balance Sheet - Nonmajor Governmental Funds	Two	18
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	Three	19



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

DONALD L. ROGERS, C.P.A.
JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
PHILLIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.

CYNTHIA L. SAKS, C.P.A.
LEENA SHANBHAG, C.P.A.
NANCY O'RAFFERTY, C.P.A.
KATHLEEN L. DEVALK, C.P.A.
LAURIE K. MARSCHE, C.P.A.
THOMAS T. PRILL, C.P.A.
JENNIFER L. STARBUCK, C.P.A.
JOSEPH P. WALSH, C.P.A.
SO MAN (PEONY) CHENG, C.P.A.
SCOTT W. MANNO, C.P.A.
YUAN (PATRICIA) SONG, C.P.A.
JANET M. VRYHEID, C.P.A.

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 63 - Yucaipa and Oak Glen

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 63 - Yucaipa and Oak Glen (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the County of San Bernardino Special District County Service Area No. 63 - Yucaipa and Oak Glen, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

VANIR TOWER • 290 NORTH "D" STREET • SUITE 300
SAN BERNARDINO, CA 92401
(909) 889-0871 • (909) 824-6736 • FAX (909) 889-5361
E-mail: rams@ramscpa.net

The County of San Bernardino Special District County Service Area No. 63 - Yucaipa and Oak Glen has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CSA's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

September 26, 2003

**County of San Bernardino Special Districts
County Service Area No. 63 - Yucaipa and Oak Glen
Statement of Net Assets
June 30, 2003**

ASSETS

Cash and cash equivalents	\$ 852,620
Interest receivable	4,518
Taxes receivable	6,823
Capital assets, net of depreciation	<u>404,766</u>
Total Assets	<u>1,268,727</u>

LIABILITIES

Salaries and benefits payable	1,291
Due to other governments	<u>460</u>
Total Liabilities	<u>1,751</u>

NET ASSETS

Invested in capital assets	404,766
Unrestricted	<u>862,210</u>
Total Net Assets	<u><u>\$ 1,266,976</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 63 - Yucaipa and Oak Glen
Statement of Activities
For the Year Ended June 30, 2003**

EXPENSES

Salaries and benefits	\$ 42,719
Services and supplies	37,409
Depreciation	8,831
Total Program Expenses	<u>88,959</u>

PROGRAM REVENUES

Operating grants and contributions	3,601
Net Program Expense	<u>(85,358)</u>

GENERAL REVENUES

Property taxes	70,517
Other taxes	1,967
State assistance	1,088
Investment earnings	24,747
Other	2,036
Total General Revenues	<u>100,355</u>

Change in net assets	<u>14,997</u>
----------------------	---------------

Net Assets - beginning, as previously reported	1,248,805
--	-----------

Prior Period Adjustment	<u>3,174</u>
-------------------------	--------------

Net Assets - beginning, restated	<u>1,251,979</u>
----------------------------------	------------------

Net Assets - ending	<u><u>\$ 1,266,976</u></u>
---------------------	----------------------------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 63 - Yucaipa and Oak Glen
Balance Sheet
Governmental Funds
June 30, 2003

	SPECIAL REVENUE FUND General (SKM)	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 801,387	\$ 51,233	\$ 852,620
Interest receivable	4,225	293	4,518
Taxes receivable	2,816	-	2,816
Total Assets	<u>\$ 808,428</u>	<u>\$ 51,526</u>	<u>\$ 859,954</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and benefits payable	\$ 1,291	\$ -	\$ 1,291
Due to other funds	460	-	460
Total Liabilities	<u>1,751</u>	<u>-</u>	<u>1,751</u>
Fund Balances:			
Unreserved:			
Undesignated	806,677	51,526	858,203
Total Fund Balances	<u>806,677</u>	<u>51,526</u>	<u>858,203</u>
Total Liabilities and Fund Balances	<u>\$ 808,428</u>	<u>\$ 51,526</u>	

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 404,766

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue 4,007

Net assets of governmental funds \$ 1,266,976

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 63 - Yucaipa and Oak Glen
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	SPECIAL REVENUE FUND	Other Governmental Funds	Total Governmental Funds
	General (SKM)		
REVENUES			
Property taxes	\$ 70,505	\$ -	\$ 70,505
Other taxes	1,967	-	1,967
State assistance	1,088	-	1,088
Investment earnings	23,004	1,743	24,747
Contributions	3,601	-	3,601
Other	2,036	-	2,036
	<u>102,201</u>	<u>1,743</u>	<u>103,944</u>
Total Revenues			
EXPENDITURES			
Salaries and benefits	42,719	-	42,719
Services and supplies	37,409	-	37,409
Capital outlay:			
Improvements to land	-	912	912
	<u>80,128</u>	<u>912</u>	<u>81,040</u>
Total Expenditures			
Net Change in Fund Balances	<u>22,073</u>	<u>831</u>	<u>22,904</u>
Fund Balances - beginning, as previously reported	784,604	47,521	832,125
Prior Period Adjustment	<u>-</u>	<u>3,174</u>	<u>3,174</u>
Fund Balances - beginning, restated	<u>784,604</u>	<u>50,695</u>	<u>835,299</u>
Fund Balances - ending	<u>\$ 806,677</u>	<u>\$ 51,526</u>	<u>\$ 858,203</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 63 - Yucaipa and Oak Glen
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$	22,904
--	----	--------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.		(7,919)
--	--	---------

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue - current year		4,007
Property tax revenue - prior year		(3,995)
		4,007

Change in net assets of governmental activities	\$	14,997
---	----	--------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 63 - Yucaipa and Oak Glen
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 63 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) to maintain a nineteen acre park site which contains a historical stone school house, a tennis court, a playground, picnic areas and a paved parking lot for the communities of Yucaipa and Oak Glen.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 63 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 63 - Yucaipa and Oak Glen
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**County of San Bernardino Special Districts
County Service Area No. 63 - Yucaipa and Oak Glen
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

County of San Bernardino Special Districts
County Service Area No. 63 - Yucaipa and Oak Glen
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$(7,919) difference are as follows:

Capital outlay	\$ 912
Depreciation expense	<u>(8,831)</u>
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (7,919)</u>

County of San Bernardino Special Districts
County Service Area No. 63 - Yucaipa and Oak Glen
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 63 - Yucaipa and Oak Glen
Notes to Financial Statements
June 30, 2003

NOTE 3: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 264,580	\$ -	\$ -	\$ 264,580
Construction in progress	5,323	912	-	6,235
Total capital assets, not being depreciated	269,903	912	-	270,815
Capital assets, being depreciated:				
Improvements to land	232,073	-	-	232,073
Vehicles	42,463	-	-	42,463
Total capital assets, being depreciated	274,536	-	-	274,536
Less accumulated depreciation for:				
Improvements to land	(101,063)	(7,087)	-	(108,150)
Vehicles	(30,691)	(1,744)	-	(32,435)
Total accumulated depreciation	(131,754)	(8,831)	-	(140,585)
Total capital assets, being depreciated, net	142,782	(8,831)	-	133,951
Governmental activities capital assets, net	<u>\$ 412,685</u>	<u>\$ (7,919)</u>	<u>\$ -</u>	<u>\$ 404,766</u>

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

County of San Bernardino Special Districts
County Service Area No. 63 - Yucaipa and Oak Glen
Notes to Financial Statements
June 30, 2003

NOTE 4: RETIREMENT PLAN (continued)

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Pension Cost (in thousands)	Percentage Contributed
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**County of San Bernardino Special Districts
County Service Area No. 63 - Yucaipa and Oak Glen
Notes to Financial Statements
June 30, 2003**

NOTE 5: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 6: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$1,166 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 63 - Yucaipa and Oak Glen
Notes to Financial Statements
June 30, 2003

NOTE 6: RISK MANAGEMENT (continued)

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 7: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 9: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made to correct prior reporting errors.

<u>Museum Repair (CFG)</u>	<u>Tennis Court (CFH)</u>
\$ 1,555	\$ 1,619

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 63 - Yucaipa and Oak Glen
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2003

	Special Revenue Fund			
	General (\$KM)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 78,998	\$ 78,998	\$ 70,505	\$ (8,493)
Other taxes	-	-	1,967	1,967
State assistance	-	-	1,088	1,088
Investment earnings	25,800	25,800	23,004	(2,796)
Service fees	1,900	1,900	-	(1,900)
Contributions	-	-	3,601	3,601
Other	3,000	3,000	2,036	(964)
Total Revenues	109,698	109,698	102,201	(7,497)
EXPENDITURES				
Salaries and benefits	67,535	67,535	42,719	24,816
Services and supplies	39,930	39,930	37,409	2,521
Capital outlay:				
Equipment costs	6,000	6,000	-	6,000
Reserves and contingencies	550,247	550,247	-	550,247
Total Expenditures	663,712	663,712	80,128	583,584
Excess of Revenues Over (Under) Expenditures	(554,014)	(554,014)	22,073	576,087
OTHER FINANCING SOURCES (USES)				
Transfer out	(225,000)	(225,000)	-	225,000
Total Other Financing Sources (Uses)	(225,000)	(225,000)	-	225,000
Net Change in Fund Balances	\$ (779,014)	\$ (779,014)	22,073	\$ 801,087
Fund Balances - beginning			784,604	
Fund Balances - ending			\$ 806,677	

County of San Bernardino Special Districts
County Service Area No. 63 - Yucaipa and Oak Glen
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003

	CAPITAL PROJECT FUNDS			Total Nonmajor Governmental Funds (see Exhibit "C")
	Nature Trail (CCA)	Museum Repair (CFG)	Tennis Court (CFH)	
ASSETS				
Cash and cash equivalents	\$ 47,705	\$ 1,863	\$ 1,665	\$ 51,233
Interest receivable	273	11	9	293
Total Assets	<u>\$ 47,978</u>	<u>\$ 1,874</u>	<u>\$ 1,674</u>	<u>\$ 51,526</u>
LIABILITIES AND FUND BALANCES				
Liabilities	\$ -	\$ -	\$ -	\$ -
Fund Balances:				
Unreserved:				
Undesignated	47,978	1,874	1,674	51,526
Total Fund Balances	<u>47,978</u>	<u>1,874</u>	<u>1,674</u>	<u>51,526</u>
Total Liabilities and Fund Balances	<u>\$ 47,978</u>	<u>\$ 1,874</u>	<u>\$ 1,674</u>	<u>\$ 51,526</u>

County of San Bernardino Special Districts
County Service Area No. 63 - Yucaipa and Oak Glen
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2003

	CAPITAL PROJECT FUNDS			Total Nonmajor Governmental Funds (see Exhibit "D")
	Nature Trail (CCA)	Museum Repair (CFG)	Tennis Court (CFH)	
REVENUES				
Investment earnings	\$ 1,741	\$ (25)	\$ 27	\$ 1,743
Total Revenues	1,741	(25)	27	1,743
EXPENDITURES				
Capital Outlay:				
Improvements to land	912	-	-	912
Total Expenditures	912	-	-	912
Net Change in Fund Balances	829	(25)	27	831
Fund Balances - beginning, as previously reported	47,149	344	28	47,521
Prior Period Adjustment	-	1,555	1,619	3,174
Fund Balances - beginning, restated	47,149	1,899	1,647	50,695
Fund Balances - ending	\$ 47,978	\$ 1,874	\$ 1,674	\$ 51,526

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 68
VALLEY OF THE MOON**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 68
Valley of the Moon
Table of Contents**

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT		1 - 2
BASIC FINANCIAL STATEMENTS		
Government-Wide Financial Statements		
Statement of Net Assets	A	3
Statement of Activities	B	4
Fund Financial Statements		
Balance Sheet - Governmental Funds	C	5
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	D	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	E	7
Notes to Financial Statements		8 - 16
Required Supplementary Information	<u>Schedule</u>	
Budgetary Comparison Schedule - Special Revenue Fund (General)	One	17



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

DONALD L. ROGERS, C.P.A.
JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
PHILLIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.

CYNTHIA L. SAKS, C.P.A.
LEENA SHANBHAG, C.P.A.
NANCY O'RAFFERTY, C.P.A.
KATHLEEN L. DEVALK, C.P.A.
LAURIE K. MARSCHER, C.P.A.
THOMAS T. PRILL, C.P.A.
JENNIFER L. STARBUCK, C.P.A.
JOSEPH P. WALSH, C.P.A.
SO MAN (PEONY) CHENG, C.P.A.
SCOTT W. MANNO, C.P.A.
YUAN (PATRICIA) SONG, C.P.A.
JANET M. VRYHEID, C.P.A.

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 68 - Valley of the Moon

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 68 - Valley of the Moon (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 68 - Valley of the Moon, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

VANIR TOWER • 290 NORTH 'D' STREET • SUITE 300
SAN BERNARDINO, CA 92401
(909) 889-0871 • (909) 824-6736 • FAX (909) 889-5361
E-mail: rams@ramscpa.net

The County of San Bernardino Special District County Service Area No. 68 - Valley of the Moon has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

County of San Bernardino Special Districts
County Service Area No. 68 - Valley of the Moon
Statement of Net Assets
June 30, 2003

ASSETS

Cash and cash equivalents	\$ 41,756
Interest receivable	172
Taxes receivable	4,406
Capital assets, net of depreciation	<u>776,692</u>
Total Assets	<u>823,026</u>

LIABILITIES

Due to other governments	<u>382</u>
--------------------------	------------

NET ASSETS

Invested in capital assets	776,692
Unrestricted	<u>45,952</u>
Total Net Assets	<u>\$ 822,644</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 68 - Valley of the Moon
Statement of Activities
For the Year Ended June 30, 2003**

EXPENSES

Salaries and benefits	\$ 14,278
Services and supplies	14,816
Depreciation	23,436
Total Program Expenses	<u>52,530</u>

PROGRAM REVENUES

Net Program Expense	<u>-</u> <u>(52,530)</u>
---------------------	-----------------------------

GENERAL REVENUES

Property taxes	31,353
Other taxes	1,277
State assistance	703
Investment earnings	1,866
Total General Revenues	<u>35,199</u>

Change in Net Assets	(17,331)
----------------------	----------

Net Assets - beginning	<u>839,975</u>
------------------------	----------------

Net Assets - ending	<u><u>\$ 822,644</u></u>
---------------------	--------------------------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 68 - Valley of the Moon
Balance Sheet
Governmental Funds
June 30, 2003

	SPECIAL REVENUE FUND General (SKP)	CAPITAL PROJECTS FUND Paving (CMU)	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 41,732	\$ 24	\$ 41,756
Interest receivable	172	-	172
Taxes receivable	1,818	-	1,818
 Total Assets	 <u>\$ 43,722</u>	 <u>\$ 24</u>	 <u>\$ 43,746</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other governments	\$ 382	\$ -	\$ 382
 Total Liabilities	 <u>382</u>	 <u>-</u>	 <u>382</u>
Fund Balances:			
Unreserved:			
Undesignated	43,340	24	43,364
 Total Fund Balances	 <u>43,340</u>	 <u>24</u>	 <u>43,364</u>
 Total Liabilities and Fund Balances	 <u>\$ 43,722</u>	 <u>\$ 24</u>	

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.

776,692

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental fund.

2,588

Net assets of governmental funds

\$ 822,644

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 68 - Valley of the Moon
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	SPECIAL REVENUE FUND General (SKP)	CAPITAL PROJECTS FUND Paving (CMU)	Total Governmental Funds
REVENUES			
Property taxes	\$ 31,345	\$ -	\$ 31,345
Other taxes	1,277	-	1,277
State assistance	703	-	703
Investment earnings	1,810	56	1,866
Total Revenues	35,135	56	35,191
EXPENDITURES			
Salaries and benefits	14,278	-	14,278
Services and supplies	14,816	-	14,816
Capital outlay:			
Improvements to land	-	50,161	50,161
Total Expenditures	29,094	50,161	79,255
Excess of Revenues Over (Under) Expenditures	6,041	(50,105)	(44,064)
OTHER FINANCING SOURCES (USES)			
Transfer in	-	50,129	50,129
Transfer out	(50,129)	-	(50,129)
Total Other Financing Sources (Uses)	(50,129)	50,129	-
Net Change in Fund Balances	(44,088)	24	(44,064)
Fund Balances - beginning	87,428	-	87,428
Fund Balances - ending	\$ 43,340	\$ 24	\$ 43,364

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 68 - Valley of the Moon
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$	(44,064)
--	----	----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.		26,725
--	--	--------

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental fund.

Property tax revenue - current year		2,588
Property tax revenue - prior year		(2,580)

Change in net assets of governmental activities	\$	(17,331)
---	----	----------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 68 - Valley of the Moon
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 68 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 8 miles of paved roads.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 68 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 68 - Valley of the Moon
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* labeled "Paving" is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts
County Service Area No. 68 - Valley of the Moon
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

County of San Bernardino Special Districts
County Service Area No. 68 - Valley of the Moon
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$26,725 difference are as follows:

Capital outlay	\$ 50,161
Depreciation expense	<u>(23,436)</u>
Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 26,725</u>

County of San Bernardino Special Districts
County Service Area No. 68 - Valley of the Moon
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 68 - Valley of the Moon
Notes to Financial Statements
June 30, 2003

NOTE 3: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 50,161	\$ -	\$ 50,161
Total capital assets, not being depreciated	-	50,161	-	50,161
Capital assets, being depreciated:				
Vehicles	26,609	-	-	26,609
Infrastructure	937,458	-	-	937,458
Total capital assets, being depreciated	964,067	-	-	964,067
Less accumulated depreciation for:				
Vehicles	(26,609)	-	-	(26,609)
Infrastructure	(187,491)	(23,436)	-	(210,927)
Total accumulated depreciation	(214,100)	(23,436)	-	(237,536)
Total capital assets, being depreciated, net	749,967	(23,436)	-	726,531
Governmental activities capital assets, net	<u>\$ 749,967</u>	<u>\$ 26,725</u>	<u>\$ -</u>	<u>\$ 776,692</u>

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

County of San Bernardino Special Districts
County Service Area No. 68 - Valley of the Moon
Notes to Financial Statements
June 30, 2003

NOTE 4: RETIREMENT PLAN (continued)

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Pension Cost (in thousands)	Percentage Contributed
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

County of San Bernardino Special Districts
County Service Area No. 68 - Valley of the Moon
Notes to Financial Statements
June 30, 2003

NOTE 5: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 6: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA insurance premiums totaled \$1,150 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 68 - Valley of the Moon
Notes to Financial Statements
June 30, 2003

NOTE 6: RISK MANAGEMENT (continued)

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 7: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2003, the CSA made the following interfund transfers in and out:

	<u>Transfers in:</u>
	<u>Paving</u>
Transfers out:	
General	\$ 50,129

NOTE 8: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 9: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 68 - Valley of the Moon
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2003

	Special Revenue Fund			
	General (SKP)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 31,933	\$ 31,933	\$ 31,345	\$ (588)
Other taxes	-	-	1,277	1,277
State assistance	-	-	703	703
Investment earnings	1,500	1,500	1,810	310
Total Revenues	33,433	33,433	35,135	1,702
EXPENDITURES				
Salaries and benefits	17,130	17,130	14,278	2,852
Services and supplies	18,668	18,668	14,816	3,852
Reserves and contingencies	15,062	15,062	-	15,062
Total Expenditures	50,860	50,860	29,094	21,766
Excess of Revenues Over Expenditures	(17,427)	(17,427)	6,041	23,468
OTHER FINANCING SOURCES (USES)				
Transfer out	(70,000)	(70,000)	(50,129)	19,871
Total Other Financing Sources (Uses)	(70,000)	(70,000)	(50,129)	19,871
Net Change in Fund Balances	\$ (87,427)	\$ (87,427)	(44,088)	\$ 43,339
Fund Balances - beginning			87,428	
Fund Balances - ending			\$ 43,340	

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 69
LAKE ARROWHEAD**

REPORT ON AUDIT

JUNE 30, 2003

**County of San Bernardino Special Districts
County Service Area No. 69
Lake Arrowhead
Table of Contents**

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT		1 - 2
BASIC FINANCIAL STATEMENTS		
Government-Wide Financial Statements		
Statement of Net Assets	A	3
Statement of Activities	B	4
Fund Financial Statements		
Balance Sheet - Governmental Funds	C	5
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	D	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	E	7
Notes to Financial Statements		8 - 17
Required Supplementary Information	<u>Schedule</u>	
Budgetary Comparison Schedule - Special Revenue Fund (General)	One	18



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

DONALD L. ROGERS, C.P.A.
JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
PHILLIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.

CYNTHIA L. SAKS, C.P.A.
LEENA SHANBHAG, C.P.A.
NANCY O'RAFFERTY, C.P.A.
KATHLEEN L. DEVALK, C.P.A.
LAURIE K. MARSCHER, C.P.A.
THOMAS T. PRILL, C.P.A.
JENNIFER L. STARBUCK, C.P.A.
JOSEPH P. WALSH, C.P.A.
SO MAN (PEONY) CHENG, C.P.A.
SCOTT W. MANNO, C.P.A.
YUAN (PATRICIA) SONG, C.P.A.
JANET M. VRYHEID, C.P.A.

Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 69 - Lake Arrowhead

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 69 - Lake Arrowhead (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 69 - Lake Arrowhead, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

VANIR TOWER • 290 NORTH "D" STREET • SUITE 300
SAN BERNARDINO, CA 92401
(909) 889-0871 • (909) 824-6736 • FAX (909) 889-5361
E-mail: ramiscpa@ramiscpa.net

The County of San Bernardino Special District County Service Area No. 69 - Lake Arrowhead has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts
County Service Area No. 69 - Lake Arrowhead
Statement of Net Assets
June 30, 2003**

ASSETS

Cash and cash equivalents	\$ 58,707
Interest receivable	246
Taxes receivable	3,475
Capital assets, net of depreciation	<u>399,163</u>
Total Assets	<u>461,591</u>

LIABILITIES

Due to other governments	<u>64</u>
--------------------------	-----------

NET ASSETS

Invested in capital assets	399,163
Unrestricted	<u>62,364</u>
Total Net Assets	<u>\$ 461,527</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 69 - Lake Arrowhead
Statement of Activities
For the Year Ended June 30, 2003**

EXPENSES

Salaries and benefits	\$ 4,466
Services and supplies	7,023
Depreciation	9,142
Total Program Expenses	<u>20,631</u>

PROGRAM REVENUES

Charges for services	39,804
Net Program Revenue	<u>19,173</u>

GENERAL REVENUES

Property taxes	20,539
Other taxes	788
State assistance	448
Investment earnings	2,212
Total General Revenues	<u>23,987</u>

Change in Net Assets	43,160
----------------------	--------

Net Assets - beginning	<u>418,367</u>
------------------------	----------------

Net Assets - ending	<u><u>\$ 461,527</u></u>
---------------------	--------------------------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 69 - Lake Arrowhead
Balance Sheet
Governmental Funds
June 30, 2003

	SPECIAL REVENUE FUND General (SKS)	CAPITAL PROJECTS FUND Paving (CMW)	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 58,405	\$ 302	\$ 58,707
Interest receivable	241	5	246
Taxes receivable	1,760	-	1,760
Total Assets	\$ 60,406	\$ 307	\$ 60,713
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other governments	\$ 64	\$ -	\$ 64
Total Liabilities	64	-	64
Fund Balances:			
Unreserved:			
Undesignated	60,342	307	60,649
Total Fund Balances	60,342	307	60,649
Total Liabilities and Fund Balances	\$ 60,406	\$ 307	

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

399,163

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue

1,715

Net assets of governmental funds

\$ 461,527

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 69 - Lake Arrowhead
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	SPECIAL REVENUE FUND General (SKS)	CAPITAL PROJECTS FUND Paving (CMW)	Total Governmental Funds
REVENUES			
Property taxes	\$ 20,472	\$ -	\$ 20,472
Special assessments	39,804	-	39,804
Other taxes	788	-	788
State assistance	448	-	448
Investment earnings	1,862	350	2,212
Total Revenues	<u>63,374</u>	<u>350</u>	<u>63,724</u>
EXPENDITURES			
Salaries and benefits	4,466	-	4,466
Services and supplies	7,023	-	7,023
Capital outlay:			
Improvements to land	-	62,635	62,635
Total Expenditures	<u>11,489</u>	<u>62,635</u>	<u>74,124</u>
Excess of Revenues Over (Under) Expenditures	<u>51,885</u>	<u>(62,285)</u>	<u>(10,400)</u>
OTHER FINANCING SOURCES (USES)			
Transfer in	-	62,592	62,592
Transfer out	(62,592)	-	(62,592)
Total Other Financing Sources (Uses)	<u>(62,592)</u>	<u>62,592</u>	<u>-</u>
Net Change in Fund Balances	<u>(10,707)</u>	<u>307</u>	<u>(10,400)</u>
Fund Balances - beginning	<u>71,049</u>	<u>-</u>	<u>71,049</u>
Fund Balances - ending	<u>\$ 60,342</u>	<u>\$ 307</u>	<u>\$ 60,649</u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 69 - Lake Arrowhead
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$	(10,400)
--	----	----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.		53,493
--	--	--------

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue - current year		1,715
Property tax revenue - prior year		(1,648)
		1,067

Change in net assets of governmental activities	\$	43,160
---	----	--------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 69 - Lake Arrowhead
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 69 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 10 miles of paved roads.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 69 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 69 - Lake Arrowhead
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* labeled "Paving" is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts
County Service Area No. 69 - Lake Arrowhead
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

County of San Bernardino Special Districts
County Service Area No. 69 - Lake Arrowhead
Notes to Financial Statements
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$53,493 difference are as follows:

Capital outlay	\$ 62,635
Depreciation expense	<u>(9,142)</u>
Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 53,493</u>

**County of San Bernardino Special Districts
County Service Area No. 69 - Lake Arrowhead
Notes to Financial Statements
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

County of San Bernardino Special Districts
County Service Area No. 69 - Lake Arrowhead
Notes to Financial Statements
June 30, 2003

NOTE 3: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 62,635	\$ -	\$ 62,635
Total capital assets, not being depreciated	-	62,635	-	62,635
Capital assets, being depreciated:				
Land improvements	137,548	-	-	137,548
Infrastructure	228,125	-	-	228,125
Total capital assets, being depreciated	365,673	-	-	365,673
Less accumulated depreciation for:				
Land improvements	(8,597)	(3,439)	-	(12,036)
Infrastructure	(11,406)	(5,703)	-	(17,109)
Total accumulated depreciation	(20,003)	(9,142)	-	(29,145)
Total capital assets, being depreciated, net	345,670	(9,142)	-	336,528
Governmental activities, capital assets, net	<u>\$ 345,670</u>	<u>\$ 53,493</u>	<u>\$ -</u>	<u>\$ 399,163</u>

**County of San Bernardino Special Districts
County Service Area No. 69 - Lake Arrowhead
Notes to Financial Statements
June 30, 2003**

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County of San Bernardino Special Districts
County Service Area No. 69 - Lake Arrowhead
Notes to Financial Statements
June 30, 2003**

NOTE 4: RETIREMENT PLAN (continued)

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

NOTE 5: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 6: RISK MANAGEMENT

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

**County of San Bernardino Special Districts
County Service Area No. 69 - Lake Arrowhead
Notes to Financial Statements
June 30, 2003**

NOTE 6: RISK MANAGEMENT (continued)

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**County of San Bernardino Special Districts
County Service Area No. 69 - Lake Arrowhead
Notes to Financial Statements
June 30, 2003**

NOTE 7: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2003, the CSA made the following interfund transfers in and out:

	<u>Transfer in:</u>
	<u>Paving (CMW)</u>
Transfer out:	
General (SKS)	<u>\$ 62,592</u>

NOTE 8: CONTINGENCIES

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 9: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

Required Supplementary Information
County of San Bernardino Special Districts
County Service Area No. 69 - Lake Arrowhead
Budgetary Comparison Schedule - Special Revenue Fund (General)
For the Year Ended June 30, 2003

	Special Revenue Fund			
	General (SKS)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 19,618	\$ 19,618	\$ 20,472	\$ 854
Special assessments	39,000	39,000	39,804	804
Other taxes	-	-	788	788
State assistance	-	-	448	448
Investment earnings	1,000	1,000	1,862	862
Total Revenues	59,618	59,618	63,374	3,756
EXPENDITURES				
Salaries and benefits	4,466	4,466	4,466	-
Services and supplies	25,742	25,742	7,023	18,719
Reserves and contingencies	30,459	30,459	-	30,459
Total Expenditures	60,667	60,667	11,489	49,178
Excess of Revenues Over (Under) Expenditures	(1,049)	(1,049)	51,885	52,934
OTHER FINANCING SOURCES (USES)				
Transfer out	(70,000)	(70,000)	(62,592)	7,408
Total Other Financing Sources (Uses)	(70,000)	(70,000)	(62,592)	7,408
Net Change in Fund Balances	\$ (71,049)	\$ (71,049)	(10,707)	\$ 60,342
Fund Balances - beginning			71,049	
Fund Balances - ending			\$ 60,342	